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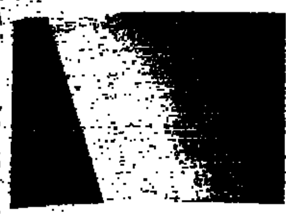

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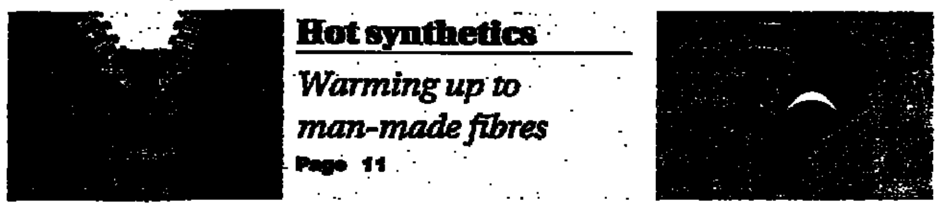

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FINANCIAL TIMES

Europe's Business Newspaper
FRIDAY DECEMBER 16 1994
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West reacts coolly to Karadzic plan for Bosnian peace

Western governments reacted coolly to the six-point peace plan proposed by Radovan Karadzic, the Bosnian Serb leader, and his invitation to Jimmy Carter, the former US president, to act as a mediator. William Perry, US defence secretary, said the plan "could be a positive step forward in the humanitarian direction" but "history indicates the need for some scepticism". Page 16; France and US raise stakes, Page 2

Arctic oil project threatened: A $15bn project to develop the Timan Pechora oil basin in Russia's Arctic circle is in jeopardy following last-minute demands by the Russian partner for a 50 per cent equity stake. Page 18

Siemens expects 20% profits rise: Siemens forecast a 20 per cent surge in profits in the current financial year. Page 17; Lex, Page 16

Sabena, Belgium's state-owned national carrier, was set for a radical change in ownership as Swissair confirmed it was in discussions with the Belgian government over the airline. Page 17

Swiss Reinsurance, the world's second-largest reinsurance group, and CS Holding, the financial services group built around Credit Suisse, have formed a strategic alliance in financial and reinsurance products. Page 17

UK electricity takeover stalled: The UK government is to retain its "special" shares in the regional electricity companies until the end of March, making impossible the completion of a potential takeover of Northern Electric by conglomerate Trafalgar House before then. Page 17; Observer, Page 15; Lex, Page 16; Trafalgar House cuts charges, Page 24

Saatchi chairman's future unsure: Maurice Saatchi's tenure as chairman of Saatchi & Saatchi, the UK advertising company he founded, looked increasingly uncertain last night after the company's financial advisers, S.G. Warburg and UBS, recommended that the board should ask him to stand down. Page 17; When charm wears thin, Page 14

Crash may deter turboprop passengers:

This week's fatal accident in North Carolina (above), when a small commuter aircraft crashed into a wood, killing 15 of the 20 passengers, may deter passengers from short-hop flights. Many passengers already dislike the propeller-powered aircraft typically used on these flights. Page 16

Prospect of new talks over Chechnya: A full-scale war in the rebel Russian republic of Chechnya remained in obeyance last night as the possibility emerged of a new round of negotiations and as rumours spread of the unwillingness of Russian troops to encircle the capital, Grozny. Page 2

Berlusconi prepares for showdown: Silvio Berlusconi, the embattled Italian prime minister, is preparing for a showdown early next week in parliament with his troublesome ally Umberto Bossi, leader of the populist Northern League. Page 3

Indian cabinet set for reshuffle: P.V. Narasimha Rao, India's prime minister, last night seemed to be preparing a cabinet reshuffle in an effort to win back public confidence following the ruling Congress (I) party's defeat in state elections last week. Page 4

Mercosur trade talks begin: The four member countries in the South America's Mercosur customs union began a final meeting setting the seal on the formal establishment of the trade area on January 1. Page 6

Ulster talks progress: Northern Irish loyalist leaders emerged from a historic first round of talks with British government officials and said they were satisfied that guarantees that the province would remain part of the UK would be honoured. Page 9

Diamonds stolen: Thieves took at least $1m worth of diamonds from Belgium's big Kring diamond exchange in Antwerp. Police said the thieves apparently used forged keys to enter one of the country's best-protected buildings and open safes.

■ STOCK MARKET INDICES

FT-SE 100:	2,973.4	(-7.2)
Yield	4.33	
FT-SE Eurotrack 100	1,325.74	(+8.92)
FT-SE-A All-Share	1,479.6	(-0.1%)
Nikkei	19,121.12	(+187.63)
New York: lunchtime		
Dow Jones Ind Ave	3,763.11	(+16.82)
S&P Composite	455.95	(+0.98)

■ US LUNCHTIME RATES

Federal Funds:	5⅝%
3-mo Treas Bills: Yld	5.697%
Long Bond	95¹¹⁄₃₂
Yield	7.879%

■ LONDON MONEY

3-mo Interbank	6⅛%	(6⁷⁄₁₆%)
Liffe long gilt future:	Mar 102³⁄₁₆	(Mar 101¹³⁄₃₂)

■ NORTH SEA OIL (Argus)

Brent 15-day (Feb)	$15.83	(16.045)

■ GOLD

New York Comex (Feb)	$382.7	(381.5)
London	$379.85	(379.1)

■ STERLING

New York lunchtime:		
$	1.56335	
London:		
$	1.5615	(1.5622)
DM	2.4542	(2.4513)
FFr	8.4639	(8.4507)
SFr	2.0718	(2.0723)
Y	156.629	(156.626)
£ Index	80.3	(same)

■ DOLLAR

New York lunchtime:		
DM	1.56955	
FFr	5.4135	
SFr	1.32525	
Y	100.285	
London:		
DM	1.5718	(1.5691)
FFr	5.4285	(5.4095)
SFr	1.3268	(1.3265)
Y	100.31	(100.26)
$ Index	63.4	(same)

Tokyo close Y 100.26

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lw60.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira60	S. Africa	R12.00
Czech Rp	CZK50	Israel	Shk8.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y600	Pakistan	Rs40	Switz	SFr3.30
Estonia	EKr 20	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00
Finland	FM14	Kuwait	Fils.625	Poland	Zl 38,000	Tunisia	Din1.500
France	FFr9.50	Lebanon	US$1.50	Portugal (m'land)		Turkey	L30000
Germany	DM3.60	Lux	LFr65		Es225	UAE	Dh12.00

MAM sinks Morgan Stanley, Warburg merger plan

By John Gapper and Norma Cohen in London and Richard Waters in New York

Morgan Stanley and S.G. Warburg yesterday called off talks aimed at creating a dominant global investment bank because of resistance from Warburg's fund management arm Mercury Asset Management to the proposed merger.

The talks broke down after the board of MAM, which is 75 per cent owned by Warburg, demanded a premium offer for its minority shareholders, as well as operational independence from Morgan Stanley.

Morgan Stanley's executives acknowledged for the first time that the primary motive was to gain control of MAM. "MAM was the reason for us to do this deal," said Mr Stephen Waters, co-managing director of Morgan Stanley Europe.

Although Warburg intends to resume its strategy of building a global business independently, the breakdown could increase the chance of a takeover bid and offers by other investment banks to merge. It could also renew tensions between Warburg and MAM, which believes its customers prefer it to be independent.

Earlier this year, MAM limited business it gave Warburg in protest at the handling of a takeover bid.

MAM's board, advised independently by Lazard Brothers, the merchant bank, is thought to have asked for a premium of up to 30 per cent for minority shareholders, which would have meant offering about £400m for their equity.

Senior executives of Morgan Stanley said last night that they would have been prepared to pay some premium to the MAM shareholders. However, they were not willing to accept the MAM demands for independence.

Warburg's shares fell to close 99p down at 699p after the announcement yesterday, while MAM's shares fell 67p to 678p. MAM shares had risen on expectations of a premium offer. In New York, Morgan Stanley's shares had fallen 25 cents at midday to $61¼.

MAM said in a statement its objective had been "to maintain the operating independence of its business for the benefit of its clients". The company has strongly defended its independence from Warburg in the past.

Lord Cairns, Warburg's chief executive, said the merger had been "a bold initiative, but by no means essential for further progress". He said Warburg was "as strongly placed as ever" to be a top global investment bank.

Mr Richard Fisher, Morgan Stanley's chairman, said Warburg would have been "a good fit" and the collapse was unfortunate. Morgan Stanley said the price and terms on which MAM indicated it would participate were unacceptable.

Talks broke down yesterday after a meeting in London on Tuesday attended by Mr Fisher and Mr John Mack, Morgan Stanley's president. The US firm

Continued on Page 16
Lex, Page 16
Warburg left in lurch, Page 22

Fine Gael prime minister pledges to continue peace process

Bruton wins vote to head new Irish coalition

By John Murray Brown in Dublin

Ireland agreed a new coalition government led by the conservative Fine Gael party yesterday, ending a month of political uncertainty after a scandal dragged down its Fianna Fáil-Labour predecessor.

Mr John Bruton, the Fine Gael leader, supported by 85 votes to 74, becomes Ireland's tenth prime minister, leading a coalition with Mr Dick Spring's Labour party and the Democratic Left of Mr Proinsias De Rossa.

Mr Bruton, who succeeds Fianna Fáil's Mr Albert Reynolds, said the government's first national aim would be to sustain the Northern Ireland peace process. In London Mr John Major, the UK prime minister, said he had sought an early meeting with the new Irish premier.

Speaking to the Dáil (parliament), Mr Bruton said his government would "work ceaselessly and sensitively to make peace a permanent part of our future".

His election was welcomed by unionists in Northern Ireland. Mr Peter Robinson, Democratic Unionist MP for East Belfast, said Mr Bruton had a greater understanding of the Ulster Unionist position than most other members of the Irish parliament.

His desire to change articles two and three of the republic's constitution – which claim territorial jurisdiction over Northern Ireland – was a "promising backcloth" to his term in office, Mr Robinson said.

The coalition, embracing conservative and radical elements, may prove hard to maintain. On economic policy, Fine Gael's fiscal targets may come under pressure from Labour and DL.

Mr Bruton conceded that the government was made up of parties whose "origins and policies" were very different. But he insisted that "differences don't have to pose a threat".

Fine Gael, a rurally based party with largely middle-class support, will have eight ministers. Labour, which has traditionally projected itself as a European-style secular party, will have six ministers – the same number it enjoyed in the outgoing administration. However, Labour's Mr Ruairi Quinn will take over the finance portfolio, the first time the finance ministry has not been controlled by the largest party in a coalition.

Democratic Left, the successor of the Official IRA when the Provisional IRA split to pursue the armed struggle in 1970, dropped its earlier insistence on two cabinet positions.

The main points of the new government's agreed programme include moves to keep public borrowing below 3 per cent of gross national product; tax cuts for the low paid; a freeze on privatisation; a referendum on divorce; and a commitment to the Northern Ireland peace process.

The breakthrough coincides with talks yesterday in Belfast between the British officials and representatives of loyalist paramilitaries.

David Owen adds: In London, Mr Major said he was confident the new Dublin government would wish to "sustain together the work we have done over Northern Ireland."

Page 2
■ Calm hand at the helm of uneasy coalition

Taking charge: Fine Gael leader John Bruton receives his seal of office in Dublin from the Irish president Mary Robinson Picture: Reuter

Spain to revive leaseback plans for Gibraltar

By Tom Burns in Madrid and Jimmy Burns in London

Spain is planning to resurrect suggestions for a leaseback of Gibraltar, or a sharing of sovereignty, that were raised 10 years ago at the first annual bilateral meeting to discuss the future of the British colony.

Mr Javier Solana, the Spanish foreign minister, will tell British negotiators on Tuesday in London that "imaginative steps" are required to end a diplomatic deadlock and avert a "mafia-type" takeover of the colony.

One Spanish proposal is that Gibraltar should be leased to Britain for an unspecified number of years. Another is that London and Madrid would, for a period of time, share sovereignty.

Under either formula, territorial sovereignty over Gibraltar would eventually be restored to Spain, though its institutions and identity would be safeguarded by self-rule powers negotiated between London and Madrid.

The UK has difficulties with the leaseback suggestions because the British government is committed to Gibraltar's 1969 constitution. This guarantees that the UK will not cede the colony to Spain against the wishes of the majority of its population.

Spain is also concerned that Gibraltar's economy, which was once dependent on the UK's Ministry of Defence, relies increasingly on money laundering and cigarette and drug smuggling. Mr Solana will seek firm assurances from Mr Douglas Hurd, the UK foreign secretary, that illicit activities on the Rock will cease.

Spanish diplomatic protests about Gibraltar's alleged illegal economic activity have increased in recent months, and Madrid has stepped up border controls between Spain and the colony.

Spanish police patrols on beaches close to Gibraltar seized three separate hauls of hashish weighing a total of 350 kilos last week.

In addition, it emerged yesterday that an international police investigation into allegations of a £5.4m fraud, linked to a large property development in Gibraltar, had run into difficulties. This occurred because of failure to trace a series of banking transactions related to the alleged fraud.

British and Danish police have been conducting a lengthy investigation into alleged irregularities arising out of the multi-million-pound property development financed by Baltica Finans, a Danish finance company.

But one senior investigator admitted that the probe had so far proved inconclusive because of the absence of a clear link between certain bank accounts held in Switzerland, and a trust in Liechtenstein called the GDP Foundation. The trust is alleged to have held monies on behalf of the Gibraltar government.

Gibraltar dispute as hard as the Rock, Page 3

French central bank warns Balladur over public deficit

By David Buchan in Paris

The Bank of France warned the Paris government yesterday that it must stop slipping behind its plan to reduce the public deficit, if necessary raising taxes to meet the Maastricht criteria for monetary union by 1996.

The warning came as the newly independent central bank set monetary goals for 1995. It renewed its pledge to keep annual inflation below 2 per cent and the franc stable, and to allow M3 – the broad measure of money supply – to grow by 5 per cent a year over the medium term, permitting non-inflationary growth of 2.5-3 per cent.

Reacting to the slight weakening of the franc in recent days, Mr Jean-Claude Trichet, the Bank of France governor, said "speculators [against the franc] will lose, as before". He claimed: "In my eyes there is the potential of the franc appreciating."

France's inflation rate, now running at an annual 1.6 per cent, had been better than that of Germany and the Netherlands for the past 3½ years, and, with the exception of one half year, better than that of the US since 1987.

Mr Trichet urged the government of Mr Edouard Balladur, prime minister, and its successor after next May's presidential election to "undertake a decisive reduction of public deficits".

In November 1993, France joined Germany in announcing a joint convergence programme that was supposed to bring down French public deficits to 5.1 per cent of gross domestic product this year and 4.2 per cent next year to meet the Maastricht guideline of 3 per cent in 1996.

The outcome of this year's public deficits is 5.3 per cent, and the government's prediction for 1995 is deficit spending equivalent to 4.6 per cent of GDP.

Mr Trichet, who negotiated Maastricht for France when he headed the Treasury, said "the target of 3 per cent in 1996 will have to be met".

He added: "It would be unimaginable for France, representing what it does in Europe, not to be within the Maastricht criteria in 1996." Monetary union in 1997, although difficult, was possible through "will and continued effort".

He urged that extra tax revenue from economic growth, which Insee, the official statistics agency predicted would be at an annual pace of more than 3 per cent in the first half of 1995, "be devoted to cutting the deficit". Non-productive public spending must be further squeezed, too.

If these two measures were not enough, "then extra revenues will have to be raised", although privately the central bank acknowledges that that is likely

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France and US raise the stakes in Bosnia

By Bruce Clark in Brussels

France and the US, the leading western players in the Bosnian poker game, have both raised the stakes by promising to get more deeply involved, at least in the short term.

That was the conclusion to emerge yesterday from a two-day meeting of Nato defence ministers where ambitious plans for new multinational operations in Bosnia topped the agenda.

Paris and Washington have both made it plain that deeper involvement for a short time could be a prelude to abandoning the scene in Bosnia - something neither country wants to do, although it could become inevitable.

And, according to diplomats at Nato headquarters, each country has a hidden as well as an overt agenda.

France is promoting a plan to regroup and reinforce the UN mission in Bosnia, which would have the happy side-effect of making it much easier to withdraw if that becomes unavoidable.

The US has thrown its weight behind the idea of a massive Nato operation to provide "cover" for an eventual UN pull-out from Bosnia. If it ever goes ahead, this operation would also have a side-effect: it would satisfy the long-standing US demand for effective western intervention against the Serbs.

The French plan for upgrading the UN operation in Bosnia will be discussed next week in The Hague at a meeting of military chiefs from the 11 Nato countries which are directly or indirectly involved in Bosnia.

Britain, second biggest troop contributor after France, has serious reservations about the French plans. One reason, say diplomats, is that London fears a watering down of the authority of General Sir Michael Rose, the British officer who is UN commander in Bosnia.

*The French ideas include the sec*uring of Sarajevo airport; the creation of a safe corridor between Sarajevo and Split; and the regrouping of UN forces near the corridor. Whatever their other merits, all these ideas would make for an easier withdrawal.

As for the US-sponsored plan for a massive withdrawal operation, one of its effects would be a transfer of operational control from the UN - whose caution in Bosnia has infuriated Washington - to the Atlantic alliance.

That could mean that even as they withdrew, western forces in Bosnia would finally take the action against the Serbs which US politicians have long been advocating.

The scale of the proposed operation, which would be by far the biggest mission Nato has ever sent into *a war zone, seems to grow with* every news report.

Under one scenario circulating among Nato diplomats, the exercise would require 29,600 ground troops and 4,000 airmen for combat roles alone, plus many thousands more in communications and logistics roles.

Mr William Perry, US defence secretary, disclosed yesterday that the Nato operation would also envisage removing or destroying the Serbs' anti-aircraft barriers, something the US is already impatient to do.

However, the Nato withdrawal plan would present all countries with some hard financial choices. On one hand, it has been estimated that getting the necessary equipment into position would cost about $800m - roughly the equivalent of Nato's entire military budget for the year - while every month the operation lasted would cost about $270m.

These are big sums, and, spending them could have the unfortunate effect of leaving Nato without funds to finance military co-operation with countries in central Europe. On the other hand, Canada and Nordic states deployed the best of their armour and communications equipment in Bosnia, and the thought of abandoning or destroying them in an over-hasty or poorly supported withdrawal would be nightmarish.

The six-point ceasefire plan advanced by Mr Radovan Karadzic, Bosnian Serb leader, has clouded the outlook for any of the plans discussed in Brussels ever coming to fruition. As one Nato diplomat saw it, Mr Karadzic is clearly hoping that his new show of reasonableness will divide the international community by satisfying some countries while leaving others sceptical.

Mr Perry, and Mr Willy Claes, Nato secretary-general, both stressed yesterday the ceasefire proposals were no substitute for a full-blown peace plan. Mr Claes expressed doubt as to whether it was necessary for ex-president Jimmy Carter, or any other high-level intermediary, to talk ceasefire terms with Mr Karadzic.

But Mr Perry was slightly more positive, saying the Bosnian Serb initiative could help the humanitarian situation.

Telecom Italia set to sign mobile phone pact

By Andrew Hill in Milan

Italian ministers should decide today whether to relax the terms of Telecom Italia's monopoly over certain telephone services, in order to offset the impact of increased competition in the lucrative mobile telephone sector.

In an indication that a compromise may be found to satisfy the state-controlled company, the Telecoms Ministry said yesterday that, after the ministerial discussion, Telecom Italia was likely to sign the joint convention governing digital mobile phone services.

Telecom Italia has withheld its signature pending a satisfactory reply to its demands for full liberalisation of mobile phone tariffs and a cut in the fee it pays the government for its monopoly over other services.

The final ministerial decision could be complicated by the obvious ill-feeling stirred up this week between Mr Silvio Berlusconi, Italy's prime minister, and his old business rival Mr Carlo De Benedetti.

Olivetti, the computer group chaired by Mr De Benedetti, is one of the leading partners in the consortium which will operate Italy's new digital mobile phone network.

The consortium, Omnitel-Pronto Italia, won the licence to compete with Telecom Italia on the eve of the March general election which brought Mr Berlusconi to power.

The defeated consortium included Fiat, the automotive and industrial group, and Fininvest, Mr Berlusconi's media group.

Mr De Benedetti angered Mr Berlusconi by indicating, in an interview published last weekend, that his administration should be replaced by an institutional government.

On Tuesday, Mr Cesare Previti, defence minister and former Fininvest lawyer, told another newspaper that the mobile phone contract had been granted "unjustly" to the Omnitel-Pronto Italia consortium. Mr Previti said he would go into more detail "when the moment comes to explain this abomination".

Mr Berlusconi himself also launched a thinly veiled attack on Olivetti and Mr De Benedetti in a letter to Il Sole 24 Ore, Italy's business newspaper, published ahead of his questioning by Milan anti-corruption magistrates on Tuesday.

Telecom Italia has demanded the right to set its own prices for mobile telephone services on the existing analogue network.

The company has built a digital network, with which Omnitel-Pronto Italia will compete. But the state company argues that if the price of its analogue services continue to be regulated it will lose subscribers to the new consortium.

Omnitel-Pronto Italia - which includes US, German and Scandinavian partners - claims any concession to Telecom Italia would put it at a further disadvantage as the new entrant in the market.

Analogue customers can use their phones only in Italy, whereas the digital subscribers can make calls from other European countries which have adopted the common "GSM" standard.

Calm hand at helm of uneasy Irish coalition

By John Murray Brown in Dublin

Mr John Bruton was once described as "John Unionist" by Mr Albert Reynolds, the man he succeeded yesterday as Ireland's new prime minister.

It was an unfortunate slip of the tongue. Nonetheless the inadvertent allusion to Mr Bruton's views on Northern Ireland highlights one of the key differences in government policy likely to emerge with his accession yesterday as head of a three-party coalition between his Fine Gael party, Labour and the small Democratic Left.

The feeling in Dublin last night was one of relief after a month of deliberations and allegations, which had left Ireland in the hands of a caretaker administration since the collapse of the Fianna Fail-Labour coalition after a judicial appointment row.

The delay had cast an ill-timed shadow over the Northern Ireland peace process, straining relations between Dublin and Sinn Fein, the IRA's political wing, and halting negotiations on the joint framework document which Ireland and the UK hope will form the basis for all-party talks on Ulster's constitutional future.

Ireland still faces a hectic diplomatic agenda, with Dublin due to host the European Union's 1996 intergovernmental conference. Some analysts yesterday predicted the coalition might not survive that long.

The potential for discord within such a wide-ranging coalition is clear. Fianna Fail, licking its wounds on the opposition benches, is in no mood to be forgiving.

Mr Bruton's Fine Gael is a rural-based conservative party with largely middle class support which has lost votes to Mr Dick Spring's more urban Labour party. Meanwhile, Mr Proinsias De Rossa's Democratic Left is an old-fashioned *socialist* party *and the* successor of the Official IRA, when the Provisional IRA broke away to pursue the armed struggle in 1970.

Even at the last minute yesterday, Democratic Left looked set to pull out of negotiations once it became clear the party, *which has just six seats in the* Dail, was being offered a single cabinet portfolio.

In Mr Bruton, the government will have calm if uncharismatic leadership. A former finance minister, he is a plain speaking barrister with 20 years in the Dail and a wealth of ministerial experience. Politically he is said to be close to the rural wing of the party, identified with Mr Liam Cosgrave, a former prime minister.

In February Mr Bruton rode out a leadership challenge, and still could be vulnerable to attack from the liberal wing of the party associated with another former premier, Dr Garret Fitzgerald.

Mr Bruton likes to dub Fine Gael as "part of the great European Christian Democrat movement". He campaigned in favour of divorce reform, where there will be a meeting of minds with Labour and Democratic Left.

On the North, the strains may be difficult to hide. Fine Gael is historically identified as the party which voted for the Anglo-Irish Treaty of 1921, which created partition. As a believer in a more accommodating stance towards the Unionists, Mr Bruton is likely to push for reform of Articles 2 and 3 of the constitution, which enshrine Ireland's territorial claim to Northern Ireland.

London in particular is keen to see that Fianna Fail, which has played a key role in the peace process so far, should not now be isolated. The party, as the voice of constitutional republicanism (Fianna Fail voted against the Treaty) enjoys better relations with Sinn Fein than the other parties.

As a result, Fianna Fail's support could be critical if the coalition is to steer through constitutional reform, which would have to be put to a referendum.

On the economy the coalition's problems are perhaps more acute. Mr Bruton won a reputation for tight spending policies when in charge of finance in 1982. But any attempt by Fine Gael to cut taxes and reduce public spending is likely to be resisted by Labour and Democratic Left.

Grozny tense but defiant as first shell falls inside the city limits

Prospect of new talks over Chechnya

By John Lloyd in Grozny

A full-scale war in the rebel Russian republic of Chechnya remained in abeyance last night as the possibility emerged of a new round of negotiations and rumours spread of the unwillingness of Russian troops to encircle the capital, Grozny.

General Dzhokar Dudayev, the Chechen president, said he was willing for negotiations, broken off on Wednesday, to restart - "at the highest political level".

He was speaking after a cabinet meeting at which Mr Paimaz Abubakarov, the finance minister and head of the Chechen negotiating team, presented a new position for discussion with the Russians.

Earlier, Mr Abubakarov had told the Financial Times that the new position depended on the Russians halting hostilities, on the agenda being broadened and on the level of the negotiating team being raised.

"I believe that to continue to negotiate is the only way to stop massive bloodshed", he said, a line evidently supported by Gen Dudayev and the cabinet.

The situation around Grozny remained very tense last night as the first shell fell within the city itself - on its northern suburbs - and as the northern division of the Russian forces moved to within 7km of the city's edge.

At intervals, the Russians bombarded Chechen positions on the perimeter of Grozny, although the firing was lighter than in the past two days.

In Moscow, President Boris Yeltsin appeared to support the more conciliatory line emerging from the Chechen leadership. He reportedly extended the deadline for surrendering weapons for a further 48 hours and agreed to talk at a higher level.

There are signs that disagreements about the war within the Russian leadership have afflicted the troops in the field.

The column coming in from the west, commanded by General Ivan Babichev has been halted for two days at the village of Davidenko, where the road to Grozny is blocked by women dancing and praying.

Within the capital, the population continues to prepare for war. On its northern side, emplacements are being thrown up, trenches dug and elite volunteer regiments, some of them claiming to be ready to fight to the death, are taking positions in front of the Russian tank column.

The stakes were raised by a Chechen claim that they had nuclear artillery shells and the cannon to fire them - left by the Russian army - based in Shiali some 25 miles southeast of Grozny.

They said, however, that they would not fire the shells preferring instead to have them put under international control by the United Nations.

Armed Chechen women demonstrate against the Russian invasion outside the presidential palace in Grozny yesterday AP

Santer: firm believer in market forces

Lionel Barber on how the next Commission president will face the tough tasks ahead

Mr Jacques Santer, prime minister of Luxembourg and president-elect of the European Commission, holds the first official session with his new colleagues in Brussels today. In its own modest way, the meeting marks the end of the Delors era.

Mr Santer has been kicking his heels these past few weeks as Mr Jacques Delors has occupied centre stage with his on-off interest in the French presidency.

Still, as visitors to his office in Luxembourg report, Mr Santer has been using his spare time to reflect upon what he intends to accomplish in his five-year term in office. This begins at the end of next month, assuming he and the rest of the 20-member Commission win approval in a vote of investiture in the European parliament on January 18.

Mr Santer is determined to make a good speech to the parliament the day before. He has carefully circulated drafts to colleagues, and wants to set out the Commission's programme in terms which can be understood by ordinary citizens. "Santer is very worried about the gap between public perceptions of the European Union and its policies," a colleague explains.

As the president-elect understands, substance matters. So what are his own priorities, and how does he intend to reach a consensus inside the newly-expanded Commission, an uneasy combination of heavyweight hold-overs such as Mr Martin Bangemann (information technology) and Sir Leon Brittan (trade), and tigerish newcomers such as Ms Ritt Bjerregaard, the Dane in charge of environment policy?

Just as important, how does he intend to keep the 15 member states on board, a skill at which Mr Delors excelled during his 10 years in Brussels?

Mr Santer says all the big ideas are on the table; now it is up to member states and the Commission to make them work. He has therefore set himself three conventional, but difficult tasks: He is committed to achieving monetary union by the end of the century; to strengthening the common foreign and security policy; and to laying the groundwork for the 1996 inter-governmental conference (IGC) to review the Maastricht treaty, the Union's blueprint for closer integration.

Mr Santer is an unabashed Emu supporter and sees a single currency as the indispensable complement to the single European market. He is cautious about the prospects for Emu by 1997, but relatively upbeat about reaching the Maastricht treaty target of 1999.

On no account does he advocate softening the Emu "convergence criteria" on budget deficits, government debt and exchange rate stability, though he recognises that the Maastricht treaty does offer flexibility, provided that candidates for monetary union are moving in the right direction toward targets.

Most striking to visitors is Mr Santer's belief in the virtue of market forces. Whereas Mr Delors' first instinct was to corral the financial markets, especially during the currency turbulence in 1992-1993, Mr Santer leans toward a lighter touch. He thinks the introduction of wider 15 per cent fluctuation bands in August 1993 for currencies in the exchange rate mechanism - and the fact that they have worked so well since then - shows that people should put more confidence in markets than politicians.

Mr Santer is less sure about how best to strengthen the common foreign and security policy, though he shares the view held in Bonn, Brussels, London and Paris that it is not working properly.

Now comes the hard part. Countries such as the UK and France are wary of Commission encroachment in foreign policy-making and prefer the Council of Ministers to take the lead role. Mr Santer would like to bolster the Commission's role in intelligence gathering and political analysis and has also been dropping hints about strengthening the Western European Union, the fledgling EU defence arm.

This does not amount to support for, say, the creation of a pan-European army but he would agree with Mr Delors' recent comment that the Union "must be more than the Red Cross".

On the 1996 conference, Mr Santer's bottom line is that the Union must put in place new arrangements so that it can cope with the next round of enlargement covering the former communist countries of central and eastern Europe, as well as Cyprus and Malta, *perhaps around the turn of the* century.

Contentious issues include an adjustment in the voting system in the Council of Ministers which is weighted disproportionately in favour of small member states; a reduction in the number of Commissioners; and a change in the six-monthly rotating presidency system so that large member states preside more regularly in an expanded Union.

Mr Santer keeps his cards close to his chest, but he is adamant on one matter: the IGC must take decisions which will allow the Union to function with an expanded membership of more than 25 members before negotiations with the east Europeans can begin. He is betting on a long inter-governmental conference.

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Bulgaria backs ex-communists and king

Theodor Troev in Sofia and Anthony Robinson in London report on the political revival of two rivals

The Bulgarian Socialist party (BSP), successor to what was once the eastern European communist party most loyal to Moscow, is expected to return to power after general elections this weekend. If so, it will join similar parties in Lithuania, Poland and Hungary which revived like Lazarus from what was widely assumed to be death after the collapse of the Berlin Wall.

But an equally miraculous revival has been taking place at the opposite end of the political spectrum - a surge in popular enthusiasm for the idea of monarchy in general and for the exiled monarch, ex-King Simeon the second, in particular.

The popularity of the king has been rising since the downfall of Todor Zhivkov, the old communist dictator, in 1989. Even president Zhelyu Zhelev, a former dissident, who used to be the most popular politician in Bulgaria, recently came behind King Simeon in public opinion polls.

The 57-year-old king, who lives in Madrid, is widely considered to be closer to restoration as a modern constitutional monarch than any other exiled royal claimant in the former communist world. Many of the 49 political organisations contesting the election have sought to capitalise on the popular longing for "a good and just king".

The socialists have not been able to ride the monarchist chariot for ideological reasons. But political rivals claim the BSP has secretly inspired monarchist organisations to register for the election to prevent them joining the Union of Democratic Forces (UDF), the main anti-communist coalition. Every vote diverted from the UDF serves the BSP cause.

In 1991, most royalists voted for the UDF after King Simeon appealed to Bulgarians to vote for the "democratic forces". This was interpreted as support for the UDF, although the King refused to urge anyone to vote for a particular party. Dispersion of pro-monarchist votes, meanwhile, meant that none of the divided monarchist groups managed to clear the 4 per cent hurdle needed to enter parliament.

This weekend's early elections result from the refusal of both the BSP and the UDF to replace the outgoing non-party government of technocrats. This was led by an academic, Mr Lyuben Berov, but supported by the BSP. It resigned last September after successfully renegotiating Bulgaria's $9.3bn (£5.7bn) foreign debt.

This time around the UDF has failed to attract more than a few of the smaller pro-monarchist clubs to join its election campaign and has found it hard to attract pro-monarchist and pro-republican voters. The UDF has pledged to contest the 1946 referendum which abolished the monarchy, *but has* not come out in favour of a restoration.

King Simeon has urged the monarchist groups to unite. But political infighting and personal power struggles have left voters to decide between seven big monarchist groups and many smaller monarchist clubs.

All that unites the groups is a desire for restoration of the old Turnovo constitution. The king's supporters say he is still *the monarch as there* was no formal abdication. The royal family was forced to leave Bulgaria when Simeon was just nine years old after a rigged plebiscite under the new communist rulers.

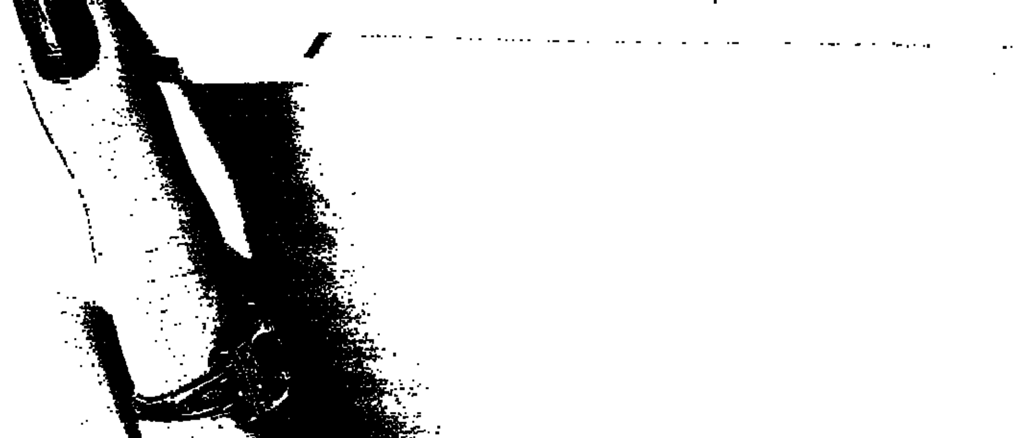
This abolished the monarchy in 1946, although the Turnovo constitution, with the monarchy as head of state, was not changed at the time. On reaching his 18th birthday, Simeon of Saxe-Coburg-Gotha was proclaimed King of the Bulgarians *under the* Turnovo constitution.

Opinion polls suggest that more and more Bulgarians see restoration of the monarchy as a guarantee of stability. Royalists also argue that monarchy could help build a barrier against further ethnic tensions in the Balkans. Politicians, eager to seize more power in elections, are more prone to manipulating *ethnic minorities* than a monarch capable of rising above such calculations, they add.

In an interview, King Simeon said that he could provide the country with "unity, national reconciliation and a sense of recovered dignity".

The ex-king does not rule out the possibility of co-existence of constitutional monarchy with a socialist government. But analysts in Sofia doubt that the monarch could be brought closer to the *throne if* the polls are accurate and the politically disciplined BSP defeats the divided monarchist and anti-communist forces.

The latter outnumber the socialists by a big majority, but have proved unable as yet to forge the alliances needed to keep the socialists out of power or put the king back on his throne.



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EUROPEAN NEWS DIGEST

Matra awarded missile contract

The French Defence Ministry yesterday awarded Matra a FFr2bn (£230m) contract to develop a long-range cruise missile, eventually giving France the equivalent of the Tomahawk, which the US used against Baghdad in the 1991 Gulf war. Matra Défense-Espace, part of the Lagardère group, plans to develop the subsonic "stealth" cruise missile, with a range of 400-600km, using some of the technology from its shorter-range Apache missile already being producing with Deutsche Aerospace of Germany. Matra, which is negotiating to merge its missile business with that of British Aerospace, also hopes to interest the UK Ministry of Defence in a derivative of the cruise missile. The UK has invited offers for its programme for the Conventional Armament Stand Off Missile, an air-to-surface missile with a range of nearly 400km, and Mr Noël Forgeard, head of Matra Défense, said yesterday that his company would propose a scaled-down version of the French cruise missile to the UK. The French cruise missile, which could cost a total of FFr5bn-FFr10bn, was the only big new programme written into the 1995-2000 military spending framework programme approved earlier this year. Matra beat Aérospatiale for the development, but the latter company will be a subcontractor on the cruise missile's development and was yesterday awarded another FFr2bn contract to develop a supersonic anti-ship missile. *David Buchan, Paris*

Greek sell-off chief suspended

Mr Vassilis Sevdalis, the head of Greece's privatisation agency, has been suspended following allegations of a conflict of interest in the sale of Piraiki-Patraiki, once Greece's biggest textile company, to a group of Greek and Saudi investors. A judicial inquiry into the disposal is under way. Mr Sevdalis, chairman of the Organisation for Industrial Reconstruction (OAE), an umbrella organisation for disposing of debt-burdened state enterprises, denied any wrongdoing. But according to industry ministry officials he admitted being a shareholder in a computer company controlled by the Vernikos group, one of the investors in Piraiki-Patraiki. OAE agreed last month to sell the textile concern to Evritania, a company backed by Vernikos, Olayan of Saudi Arabia and the Katsambas-Stratos group, its former owner. Evritania agreed to pay Dr6.8bn (£17.9m) over six years and re-hire 1,200 workers to start up the company's biggest plant, at Patras in western Greece. Piraiki-Patraiki shut down three years ago, with accumulated debt totalling almost Dr70bn. *Kerin Hope, Athens*

EU farm 'switchover' abolished

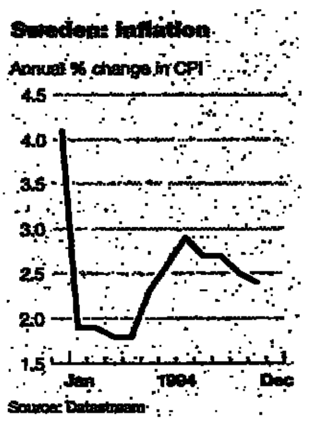
European Union farm ministers agreed yesterday to abolish the "switchover" mechanism, which has cushioned farm prices over the past decade at a cost of Ecu6bn (£4.7bn). The switchover is part of the EU's system for converting farm payments into national currencies. It operated to boost agricultural prices by 21 per cent over the last 10 years as it revalues farm payments to follow the upward movements of the strongest EU currency, which was usually the D-Mark. The German government, which was in favour of retaining the switchover, managed to pass a compromise package which offers some compensation to farmers for currency movements. The new rules compensate farmers if real exchange rates move three percentage points below or five percentage points above the green currency rate which is used for converting farm prices. The compromise was passed against the view of the Commission and the UK government, which, with Denmark, voted against the package. *Deborah Hargreaves, Brussels*

Ukraine abandons bond issue

President Leonid Kuchma yesterday abandoned Ukraine's $10bn (£6bn) bond issue. The scheme, launched this spring by former President Leonid Kravchuk, had been criticised over the legality of selling bonds backed by Ukraine's industrial and natural resources. One MP also alleged the bonds were sold in the UK and Switzerland, with the revenue diverted to secret bank accounts. Mr Kuchma's decree dissolves the Ukrainian Credit Fund, which oversaw the sale of 400 bonds worth $25m each, and orders prosecutors to look into the corruption allegations. *Matthew Kaminski, Kiev*

ECONOMIC WATCH

Swedes, Finns see inflation fall



Sweden and Finland yesterday announced a slight fall in inflation in November only days after the central banks of both countries raised interest rates because of fears of an upward swing in inflation next year. The consumer price index in Sweden rose 2.4 per cent in the year to November, compared with 2.5 per cent in the year to October. However, the Riksbank believes tax rises and capacity shortages will lead to a breach of its target of 3 per cent inflation in 1995. Also yesterday new orders to industries rose 1.0 per cent in October from September and jumped 17 per cent compared with October 1993. In Finland, year-on-year core inflation stood at just 1.1 per cent in November, compared with 1.3 per cent the month before. This was well within the central bank's target of 2 per cent in 1995, but it fears economic over-heating and rising wage claims. *Hugh Carnegy, Stockholm*

■ A 0.2 per cent rise in prices during November kept Spain's year-on-year headline inflation unchanged at 4.4 per cent. The failure to reduce price increases will now make it difficult for the government to achieve its revised year-end headline inflation target of 4.1 per cent and means that the government will have to increase inflation-indexed state pensions, which are annually calculated on the basis of November's 12-month figure.

■ Registered unemployment in the Netherlands rose to 490,000 in the three months ended November 30, from 448,000 in the similar period a year earlier. Unemployment was 1.2 per cent higher than the previous three-month reporting period.

Gibraltar dispute as hard as the Rock

Spain and UK seem unable to control developments in the colony, write Tom Burns and Jimmy Burns

British officials have long compared annual meetings with their Spanish counterparts to discuss Spain's claims to the UK colony of Gibraltar to "visits to the dentist".

Stepped-up border controls by Spain, which claims that the Rock has become a drug smuggling and money laundering centre, are likely to make the next round of talks between British foreign secretary Douglas Hurd and his Spanish counterpart Javier Solana, scheduled for next Tuesday in London, more painful than ever.

The 2¼-sq mile Crown colony that nestles under a towering limestone rock near the southern tip of Spain remains an intractable problem on the diplomatic agenda of both the British and Spanish governments. The increasing assertiveness of Mr Joe Bossano, Gibraltar's chief minister since 1988, has served to drive the bi-lateral talks even further down a dead-end.

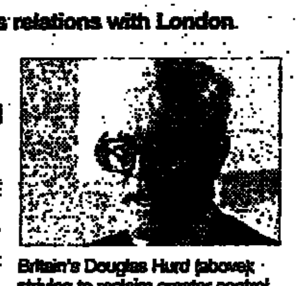
The embarrassing truth about the talks is that neither side has anything of substance to say to the other for both appear impotent to control developments on the Rock.

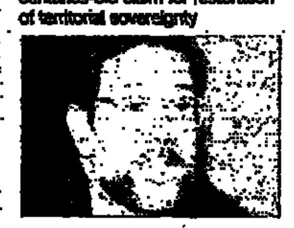
In fact, each of the parties involved with Gibraltar has a separate agenda: Spain wants territorial sovereignty over the Rock which the Gibraltarians refuse to accept; the UK is committed to respecting the wishes of the Gibraltarians but it wants to monitor closely what goes on in its colony; and Gibraltar wants freedom from Spanish claims and from British interference.

What makes it all the more difficult is that the border controls, ostensibly to build up a data base on the Rock's drugs business, often result in six-hour queues stretching deep into the colony's overcrowded urban centre. Gibraltarians resent it as much as they did the blockade imposed by General Franco in 1969 and which was lifted only after 16 years.

Accusations of bad faith, real or imagined whispering campaigns and sheer ill-temper fostered by past fears and present frustrations have replaced the optimism that marked the re-opening of Gibraltar's land frontier with Spain in 1985 and the start of the so-called Brussels negotiations process between London and Madrid to discuss "all aspects" of the future of the colony.

The Rock of Gibraltar: "a stone in the shoe" of Madrid's relations with London





Britain's Douglas Hurd (above): striving to reclaim greater control over the colony; Spain's Javier Solana (below): pursuing the centuries-old claim for restoration of territorial sovereignty

Meanwhile Gibraltar, described by Spain's prime minister Mr Felipe González as a "stone in the shoe" of Madrid's relations with London, has been pushed, and has pushed itself, into an isolation that is wholly at odds with an open European economy.

Effective lobbying in Brussels by the Spanish, who claim sovereignty over Gibraltar, has, among other things, prevented the airstrip, which divides the Rock from mainland Spain, from gaining the benefits of air traffic deregulation within the EU.

But the tough tactics employed by Spain as it pursues its 281-year old claim over Gibraltar are increasingly overshadowed by Britain's efforts to reclaim a measure of control over a colony that it fears may have cut loose from Whitehall's moorings.

Mr Bossano believes a return to a virtual frontier blockade is bad enough. But worse is the squeeze he suspects is being engineered by London to undermine the colony's attempt to make itself economically self-sufficient as a first step towards self-determination.

The view from London is that Mr Bossano has overstepped his brief by seeking, though without much success, to set up Gibraltar as an offshore financial centre selling banking services to the European Union as a de facto member but with looser regulations than in the UK. Britain is responsible for the Rock's external affairs under the terms of the colony's 1969 constitution and Whitehall is firm about its supervisory powers, in particular those covered by EU directives concerning the financial sector.

The festering relationship between Whitehall and the colony's local government came into the open this summer when Gibraltar's London-appointed attorney general, Mr John Blackburn Gittings, resigned nearly a year before his three-year posting ended.

He had concluded that conflicts of interest in an increasingly politically-charged environment had left him with no option but to stand down. As attorney-general, Mr Blackburn Gittings had to pursue the dual role of legal adviser to the Gibraltarian government and legal representative of the British government at a time of growing tension between Mr Bossano and London.

At the centre of that tension is Mr Bossano's accusation that Whitehall's regulatory supervision prevents Gibraltar from developing tax-efficient financial services similar to those in Luxembourg. "I think (the UK) is hampering us," he says. "It could be a long-term strategy to make Gibraltar look to Spain for its future."

Mr Bossano says the EU allows discretion in the implementation of its directives and that Whitehall should allow more leeway over those that directly affect Gibraltar's interests. This makes Whitehall nervous.

"We are making absolutely sure that we have control over financial regulations in Gibraltar," says a senior UK Treasury official. "In the past the Gibraltarian government has had a very large say and this is no longer the case."

Seen from Madrid, the core of the Gibraltar problem is that London has been too lenient with Mr Bossano. "We are coming round to thinking that London cannot deliver anything on Gibraltar," says a Spanish diplomat who will be attending the London talks.

At the same time, as the recent border controls demonstrate, Spain is making no attempt to "win the hearts and minds of the Gibraltarians", say British officials. They point out that the Spanish government was angered when Mr Bossano attended the IMF-World Bank meeting in Madrid in October as part of the UK delegation and it ignored the chief minister when he said he was prepared to negotiate directly with Spain.

Madrid was not in the mood for such peace overtures after a "Gibraltar national day" that had been held on the Rock the previous month. Mr Bossano had invited Basque and Catalan separatists to celebrate the colony's self-determination ambitions.

Then there is the growing evidence that Gibraltar's economy, as it fails to make headway in its off-shore banking ambitions, is becoming increasingly dependent not just on cigarette smuggling into Spain, a traditional money-maker on the Rock, but on narcotics.

Madrid claims that in the first 10 months of this year 42 tons of hashish have been seized by its police as well as 2.3m cartons of cigarettes. Hashish seized from Gibraltar-based boats last year totalled 38 tons, up from 10 tons in 1992.

Spanish officials say the Rock is coming close to a Mafia-type takeover: "Gibraltar's narcotics business is industrially organised," says one official.

There are few satisfactory explanations for the presence of 200-odd fast launches – painted black to help avoid detection at night – moored in Gibraltar's marina.

The stock response on the Rock is that the launches leave the marina empty of goods and return empty; whatever might occur in the 9-mile wide Straits of Gibraltar that separate Morocco from Spain is not the concern of the colony's government. Spanish police say drugs are loaded in the straits and off-loaded on Spanish beaches.

Smuggling has increased in importance as Mr Bossano's financial centre ambitions have foundered – partly because of Spanish opposition and partly because of timing, given the recent global recession. The financial services industry's prestige headquarters was to have been a multi-million development called Europort, work on which began in 1989 on land reclaimed from Gibraltar's harbour by Baltica group of Denmark. The office towers are completed but virtually empty.

After dragging Baltica Finans, the Danish group's investment unit, to the brink of bankruptcy, Europort has continued to haunt Mr Bossano's government because of a row over fraud and corruption.

British police have been asked by Gibraltar's governor to co-operate with the Danish police who are following up allegations of fraud linked to the development. Unofficially, they are looking into whether there is evidence of corruption by members of Mr Bossano's government.

A former Baltica employee has testified at a Danish court hearing into Baltica's near collapse that a payment of £250,000 was made to a Gibraltar minister in connection with Europort.

Mr Bossano denies any impropriety by members of his government. "There are allegations of fraud by Danes against Danes involving Danish money. There is no Gibraltarian money involved," he says.

The UK and Spain, as allies in the EU and Nato, cannot allow the Gibraltar problem to degenerate further. North Africa, clearly visible from the Rock, is enough of a security flashpoint for Europe as it is.

In the circumstances, the best outcome for the talks next week would be a realisation by both sides that the Brussels negotiating process has run its course and that a radically different approach is required.

One way forward, favoured by some Spanish foreign ministry officials, could be for Madrid to take up Mr Bossano's olive branch and begin discreet contacts with the chief minister to find out what is on his "shopping list".

Should Madrid take such a plunge it might well find to its surprise that Mr Bossano, who is a tough bargainer but is ultimately a realist, will be willing to settle for some form of dual sovereignty or leaseback arrangement that will respect the Rock's identity and institutions. This was suggested by Spain ten years ago, and Madrid says London has never properly responded.

Mr Bossano needs a deal because he cannot afford to have Europort, the duty-free shops on Main Street and the hotels losing increasing amounts of money (the Holiday Inn hotel, the second-biggest, has applied for receivership). And certainly he cannot afford to have the blackened hulls of the stripped-down speedboats in the marina as virtually the only sign of financial success.

Berlusconi plans League showdown vote

By Robert Graham in Rome

Mr Silvio Berlusconi, the embattled Italian prime minister, was yesterday preparing for a showdown early next week in parliament with his troublesome ally, Mr Umberto Bossi, leader of the populist Northern League.

Mr Berlusconi indicated he would be the one to impose a vote of confidence, rather than leave the initiative to the opposition. His aim is to force Mr Bossi and his 105 deputies to decide once and for all whether they back the eight-month-old, right-wing coalition.

The issue of a confidence motion was raised in a meeting between President Oscar Luigi Scalfaro and Mr Berlusconi yesterday afternoon. The debate could be staged on Tuesday or Wednesday, depending when the 1995 budget clears its last parliamentary hurdles. On Wednesday, President Scalfaro decided to cancel all engagements outside of Rome to be on hand to monitor Italy's fast-evolving political crisis.

The president has indicated he has few illusions about the durability of the current government. Last month President Scalfaro voiced open disagreement with Mr Berlusconi over the advisability of calling early elections.

He still opposes early elections, while Mr Berlusconi regards the threat of holding them one of his main cards, believing Mr Bossi risks being one of the main casualties.

Mr Bossi, for his part, declined to confirm he was willing to formalise a new alliance with the centre-left that would place the League with the former communist Party of the Democratic Left (PDS) and the Popular party (PPI) of Mr Rocco Buttiglione.

This alliance on Wednesday humiliated the government, voting to create a special parliamentary commission for broadcasting. Mr Bossi later met Mr Massimo D'Alema, the PDS leader, and Mr Buttiglione.

Suggestions that almost half the League's 105 deputies were not willing to follow Mr Bossi in a break with the government were denied yesterday. However, Mr Roberto Maroni, the Italian interior minister and a League MP, is cautious about making any move.

India's PM plans cabinet purge

By Stefan Wagstyl in New Delhi

Mr P V Narasimha Rao, the Indian prime minister, last night seemed to be preparing a cabinet reshuffle in an effort to win back public confidence following the ruling Congress (I) party's defeat in state elections last week.

Large numbers of ministers offered to resign yesterday in order to give Mr Narasimha Rao a free hand in rebuilding his government.

The offers came amid persistent opposition attacks on alleged corruption and incompetence in the government, especially in its handling of the 1992 Bombay stock market scandal and of a sugar shortage earlier this year.

The turmoil was compounded by arguments over the resignation on Wednesday night of Mr A K Antony, the civil supplies minister, who quit unexpectedly after he was named in a government note on the sugar affair presented to parliament earlier in the day.

The note, deliberately written in a low-key way to avoid giving offence, levelled vague criticisms at several officials and ministers. Mr Antony, who is known for his honesty, reacted strongly at being tarred with the same brush as others he believes guilty of incompetence in the affair.

While his resignation is unconnected with yesterday's offers, it increases the pressure on ministers tainted by corruption allegations.

These include Mr Romeshwar Thakur, the minister of state for finance, and Mr B Shankaranand, the health minister, who were both named in a parliamentary inquiry into the Rs40bn (£820m) securities scandal, in which money was illegally siphoned out of banks. Mr Thakur was accused in the report of delaying an official probe into the affair.

Mr Shankaranand was accused of having authorised illegal money transfers when oil minister and head of the state-owned Oil Industry Development Board. Separately, Mr Kalpnath Rai, the food minister, has been criticised in parliament for allegedly mismanaging emergency imports of sugar.

Mr Narasimha Rao has become concerned about allegations of incompetence and corruption because these issues figured prominently in the recent state elections in which Congress was defeated. Although voters were more concerned with their local state administrations than the government in Delhi, Mr Narasimha Rao seems to believe that the party needs to project a cleaner image nationally.

Narasimha Rao: anxious after accusations of incompetence

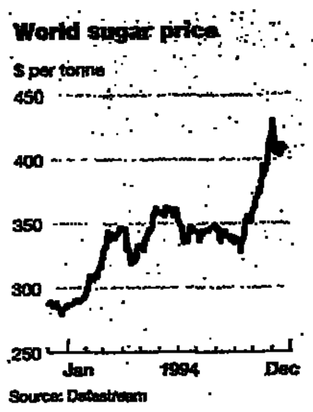
Quitting lifts lid on Indian sugar industry

Probe fall-out draws attention to highly regulated and corruption-prone sector, writes **Stefan Wagstyl**

A Cabinet minister's resignation has cast an unwanted light into the murky world of the highly regulated and corruption-prone Indian sugar industry.

The causes of the departure of Mr A K Antony, the civil supplies minister, lie in the government's mishandling of a sugar shortage earlier this year which forced the country to pay tens of millions of dollars more for imported sugar than it might otherwise have done. Sugar producers and traders, in India and abroad, made bumper profits at the expense of the Indian government and of sugar consumers.

In June, Mr P V Narasimha Rao, the prime minister, ordered an inquiry into the affair by Mr Gian Prakash, a retired civil servant, who presented his findings in September. The prime minister at first refused to publish the report. But this week, after the ruling Congress (I) party's defeats in the recent state elections in which corruption was an important issue, Mr Narasimha Rao responded to opposition party pressure and allowed a junior minister to present a short written summary to parliament. This vaguely apportioned blame to almost everyone involved in control of the sugar industry.



Source: Datastream

The low-key note, which the prime minister presumably hoped would offend no-one, outraged Mr Antony, a minister with a reputation for honesty, who was furious at being bracketed with those he believes responsible for the debacle.

Mr Antony's resignation has intensified the pressure on those who played a bigger role in the scandal.

India is both the world's largest producer and consumer of sugar. To ensure that even the poor can buy sugar, about half the output is sold through government ration shops at artificially low prices. The rest is sold on a so-called free market, although even here prices are influenced by the government which regulates the volume of sugar reaching the stores. Entry into the industry is controlled by the government which grants production licences – a lucrative source of bribes.

All this intervention fails to eliminate periodic swings between gluts and shortages. The first inkling of a shortage this year emerged last winter when Mr Antony, whose ministry is in charge of food distribution, and Mr A C Sen, the chief civil servant in the food ministry, warned Mr Kalpnath Rai, the food minister, that imports were needed. Mr Rai rejected the advice at a meeting in December of the Cabinet Committee on Prices, which controls administered prices.

Because of other official business, the committee did not meet again until March, when rising sugar prices in the domestic market had set alarm bells ringing. Mr Rai finally conceded that the crop would be smaller than expected. According to documents leaked to Indian newspapers, Mr Manmohan Singh, the finance minister who chairs the committee, remarked drily that sugar production estimates should be assessed independently since "certain parties had a vested interest in giving credence to unreliable estimates".

The committee agreed to allow private imports of sugar and authorised the state-owned trading corporations, STC and MMTC which are run by the commerce ministry, to import 1m tonnes to top up the domestic output of 9.6m tonnes. The first privately imported sugar arrived in mid-April but it was not until the end of May before the government agencies made their purchases.

The purchases were delayed by arguments between the food, commerce and finance ministries over who should pay for any losses suffered from buying sugar at world prices and selling them at (lower) Indian prices. The delays were compounded by an abortive attempt by the Food Corporation of India, a third government agency, to make its own sugar imports – a move authorised by Mr Sen, the food secretary, and blocked by Mr Rai.

As word of India's purchasing plans leaked into the international market, so prices soared from about $290 a tonne in January to $360 by June. The Indian government eventually imported 1m tonnes – if it could have paid $50 a tonne less through more adept trading, it would have saved $50m. Private traders imported a further 1m: some of them made a killing by securing early contracts. Those who bought late actually lost money since by the end of the summer prices were falling once more.

Once the panic to secure supplies had passed, the attention shifted to apportioning blame. Under pressure from the opposition parties, the prime minister ordered Mr Prakash's inquiry. Although it has not been published, it seems to have exonerated the prime minister personally and spread blame among other ministers and officials.

All those allegedly involved have denied they were at fault.

If Mr Narasimha Rao hoped that the sugar affair would gradually fade away amid concern over more immediate issues such as last week's state election results, Mr Antony's resignation will have soured his plans.

INTERNATIONAL NEWS DIGEST

Kenyan move on bank theft

A former senior civil servant in Kenya has been charged with conspiring to steal Ks5.76bn ($82m) from the central bank in a move timed to reassure a donors' meeting in Paris of the government's commitment to stamp out corruption. Mr Wilfred Koinange, the powerful permanent secretary at the treasury until his retirement in May, is the most senior government official to be charged in connection with a series of financial scandals which robbed the Exchequer of more than Ks30bn last year – the biggest embezzlement of public funds in Kenya's history.

Mr Koinange denied the prosecution charges and has been remanded in custody until his bail application is heard next week. The International Monetary Fund is understood to have warned President Daniel arap Moi that it would not sign a new loan agreement unless his government took firm steps to bring wrongdoers to justice. Without the IMF's seal of approval, neither the World Bank nor bilateral donors would be likely to pledge more aid at the Consultative Group meeting in Paris today. Kenya is seeking up to $800m (£512m) in aid for 1995. *Leslie Crawford, Nairobi*

Murayama to visit US

The Japanese prime minister, Mr Tomiichi Murayama, will visit Washington early next month for talks with President Bill Clinton, the government announced yesterday. The visit will be Mr Murayama's first to the US since he became prime minister last June. Bilateral trade relations, including the unresolved issue of trade in cars and car components, are expected, once again, to be the principal focus of the discussions. Mr Kozo Igarashi, the chief cabinet secretary, hinted at a press conference that the timing of the trip, early in the year that marks the 50th anniversary of the end of the second world war, was as important as its substance.

Mr Murayama will be accompanied by the foreign minister Mr Yohei Kono and the deputy chief cabinet secretary, Mr Hiroyuki Sonoda. *Gerard Baker, Tokyo*

Child health 'improving'

Big improvements in health, education and welfare mean that child mortality in the developing world should fall by about 2.5m next year compared with 1990. The findings, in the latest review by the United Nations World Children's Fund*, show that more than half the world's developing nations are set to meet the ambitious targets put forward at the World Summit for Children in 1990. The biggest advance has come in disorders involving iodine deficiency. Such illnesses are the world's single biggest cause of preventable mental retardation. Almost 60 of the 94 affected countries are meeting the targets to tackle iodine deficiency set in 1990, while a further 32 nations could do so over the next 12 months.

Substantial progress has been made in eradicating polio, while deaths from measles, diarrhoea and pneumonia have fallen abruptly as immunisation has increased.

* *The State of the World's Children 1995, published for Unicef by Oxford University Press. Price $6.95. Haig Simonian, Environment Correspondent*

Philippine-IMF talks hitch

Philippine debt negotiators yesterday haggled with a visiting International Monetary Fund review team over the fine points of what appeared to be a "tacit" agreement on increased monetary expansion ceilings in the country's economic programme. The Philippine government wants the agreement so it can aim for a higher overall economic growth target without being hemmed in by tight liquidity and inflation ceilings. Mr Gabriel Singson, governor of the Bangko Sentral ng Pilipinas, the country's central monetary authority, told a breakfast forum yesterday the visiting IMF team "has agreed that there will be some relaxation on monetary aggregates for 1995." However, Philippine panel member Mr Roberto de Ocampo, the finance secretary, earlier told journalists that the IMF had asked for "more evidence" from the government negotiators to support the request for new ceilings. *Jose Galang, Manila*

Zimbabwe convertibility move

Zimbabwe will move to full current account convertibility from January 1 with the liberalisation of dividend remittances and regulations covering domestic borrowing by foreign-owned companies. The changes, announced by Mr John Nkomo, acting finance minister, mean that foreign companies, which invested in Zimbabwe before May 1, 1993, will be permitted to remit 100 per cent of after-tax profits instead of 50 per cent as at present.

The relaxation applies only to dividends declared after January 1 and puts all foreign-owned companies on the same footing. In the past, only companies that invested since May 1993 were entitled to full dividend remittability. Latest figures show Zimbabwe's net foreign asset position has improved from minus $470m a year ago to a positive $3m. The country now has foreign exchange reserves covering eight months imports. *Tony Hawkins, Harare*

Packer moves on casino award

Mr Kerry Packer's Darling Casino consortium yesterday started legal proceedings against the Casino Control Authority's decision to award Sydney's A$1bn plus casino licence to its rival, the Sydney Harbour Casino (SHC) joint venture. Darling Casino (DCL), which includes Circus Circus, the large US gaming group, was outbid for the development rights earlier this year by SHC. But before the licence could be formally granted to SHC – a joint venture between Showboat, another US casino operator, and the Leighton group, an Australian construction and property group – questions were raised about Showboat's probity and a public inquiry was set up. *Nikki Tait, Sydney*

Row over rescues may dog Japan bank chief

Matsushita takes over as governor of central bank tomorrow, reports **Gerard Baker** from Tokyo

Tomorrow Mr Yasuo Matsushita will take office as the new governor of the Bank of Japan. He moves in to the central bank at a delicate time in Japanese financial history.

Money market interest rates are rising, despite an anaemic economic recovery and chronically weak demand for money. But his immediate concern will be the fragility of the nation's banking system, and especially a growing political furore over the bank's handling of it.

The problems began last week with an announcement by the outgoing governor, Mr Yasushi Mieno, of a rescue package for two of the country's smaller credit associations.

The scheme - a lifeboat to be launched in February for the two institutions - looked innocuous enough. Tokyo Kyowa and Anzen, like many of their larger peers, waded far too deep into the waters of the bubble economy of the late 1980s.

They now have bad debts of more than Y100bn (£638m) and are virtually insolvent. So the bank announced a rescue operation, funded partly by itself - with capital of Y20bn - and partly by private sector institutions, to take over the troubled companies and dispose of the bad debts.

But this week the decision was publicly denounced by one cabinet minister, and two others appear to have expressed concerns about it. Mr Ryutaro Hashimoto, the minister for international trade and industry, said the move was a dangerous precedent.

What has upset ministers is that the rescue breaks with past practice. Two years ago the ministry of finance, principally responsible for banking supervision, floated the idea of a publicly funded body to take over the bad debts of the banking system, along the lines of the Resolution Trust Corporation in the US savings and loans collapse. But there was immediate hostility from the public, and the plan was quietly shelved. There is still fierce opposition among the Japanese public to the idea that bankers should be rescued from their own folly by the use of public funds.

When institutions have been in danger of collapse in the past , the bank and the MoF have twisted the arms of larger companies and persuaded them to put up the necessary funding for the rescue.

In Japan's intertwined financial world, most of the smaller institutions have close links with larger, better-capitalised companies. Only two months ago, Mitsubishi Bank was persuaded to take control of the ailing Nippon Trust Bank, which had been brought near to collapse by the same bad lending problems.

Matsushita: a delicate time in Japanese financial history

But in recent months, the larger banks have been telling the MoF they can no longer justify the burden of rescuing ailing affiliates, without some assistance from the authorities. Hence, analysts believe, last week's unprecedented measure.

But this leaves a further puzzle. Just six weeks ago Mr Mieno, in what was widely billed as one of the most significant speeches of his governorship, signalled what many saw as a shift in Japanese financial policy. He stated in unequivocal terms for the first time that banks and financial institutions that got into trouble could not expect to be rescued.

"It is not the business of the central bank to save all financial institutions from failure," he said. Only where there was clear evidence of "systemic risk" arising from the failure of an institution should the authorities feel the need to act. "Should a failure have the potential to undermine stability as a whole, then that potential must be removed."

These sentiments would not be unusual from the mouths of other central bank governors who have tried to parry criticism that they are too soft on banks. But in Japan, where the it represented a significant departure, and was widely flagged as such by BoJ officials.

Yet it is difficult to argue that the failure of Tokyo Kyowa and Anzen, with their combined deposit base of a mere Y243bn, represents any kind of systemic risk to Japan's admittedly fragile banking system.

So why has the Bank, at the first opportunity to demonstrate its new, tougher policy, retreated from it so spectacularly?

Some suspect that the plan represents the triumph of old MoF philosophy. The MoF is much more instinctively sympathetic to the proposition that bank collapses threaten financial stability.

The financial crises of the 1920s and 1930s were more severe in Japan than elsewhere and there are many in the MoF who believe that any threat of a repeat, however small, should be avoided.

Those suspicions are enhanced by the arrival of Mr Matsushita. Unlike his predecessor, the new man is a former MoF official and is thought likely to take a less independent line than Mr Mieno.

But this theory ignores the fact that the rescue was announced by Mr Mieno before the end of his term.

A more likely explanation is that both Bank and the MoF are mindful of the continuing difficulties faced not by the likes of Kyowa and Anzen, but by the larger banks.

One senior banker suggested yesterday that the surprising move is intended to test the waters of public opinion for a support operation that really will be needed to ensure systemic stability if, as is possible, a leading bank comes close to failing in the next year or so.

Although the total level of bad loans has probably peaked, banks' prospects of eliminating the problem quickly are not assisted by declining profitability and weak lending demand. The risk of a serious setback remains strong.

In the meantime the political row will intensify in the period before the lifeboat is formally launched - not the ideal start for Mr Matsushita's tenure. But if the larger banks' health does deteriorate in the next year, the new governor's position will get a lot more uncomfortable.

Preliminary money supply figures published by the Bank of Japan yesterday gave mixed signals about the state of liquidity in the Japanese economy, writes Gerard Baker in Tokyo. The basic measure of the broad money stock accelerated in November by 2.6 per cent on a year earlier, compared with an annual growth rate of 2.4 per cent in October. On a monthly basis, the broad money figure - M2 (cash in circulation plus sight and demand deposits) and certificates of deposit - rose 0.2 per cent from October. But the rate of growth of the broadest measure of liquidity slowed slightly. M2 plus CDs plus postal savings deposits, government bonds and investment trusts grew by 3.5 per cent in November from a year earlier, compared with a preliminary 3.6 per cent rise a year ago.

Nigeria under pressure to scrap economic controls

By Paul Adams in Lagos

A team from the International Monetary Fund has completed talks this week in Abuja with Nigeria's finance ministry less than three weeks before the military regime is due to review economic policy in the 1995 budget.

General Sani Abacha, head of state, is under pressure from investors and official creditors to scrap the economic controls imposed in January and deal with the $8bn arrears in debt service to the Paris Club.

Since early 1992 Nigeria has not serviced its debt to the Paris Club, which accounts for more than half its $28bn external debt. Nigeria needs some form of agreement with the IMF and a few months' good track record to gain external debt relief and unlock international finance for planned gas export projects.

Acting finance minister Mr Anthony Ani intends to make a return visit to Washington next month.

The fund is looking for significant steps to deregulate foreign exchange and interest rate policy, cut the budget deficit and account for all oil revenue.

There is continued concern about the estimated 150,000 barrels a day of oil revenue that goes into offshore dedication accounts under the supervision of the presidency and which never enters the government's books.

The Nigerian government is being urged to curb uneconomic capital projects and recurrent spending and to find more revenue.

Although the government forecast a balanced budget in 1994, economists believe the budget deficit this year will be more than $4bn, which is nearly 100 per cent of forecast expenditure and about 14 per cent of gross domestic product, despite the failure to meet commitments to supply foreign exchange to industry and the underfunding of joint ventures in oil production.

There have been conflicting signals about the government's intentions, particularly over the most contentious issue – foreign exchange policy. Some finance ministry officials and the Central Bank of Nigeria argue for deregulation.

But Mr Aminu Saleh, a leading figure in the government, recently ruled out deregulation.

In January the government pegged the foreign exchange rate at N22 to the dollar and closed the parallel market which allowed investors to bring in and change dollars at the prevailing rate, between N45 and N50 early this year.

It also capped bank lending rates at 21 per cent, less than half the commercial rate.

Privately the government admits that both measures have failed. Inflation surged to over 100 per cent, the official source of foreign exchange dried up and the black market naira rate plunged from N50 to N100 between June and November, although it has since strengthened.

In an unprecedented attempt to crack down on the country's black market in foreign currency and reinforce its controversial exchange rate policy, Nigeria's military government has made it an offence to disclose the street value of the naira, Michael Holman, Africa Editor, writes.

In a decree issued last week, the authorities warned that to "publish or cause to be published exchange rates and interest rates other than that approved by the Central Bank" would be an offence.

The penalty for individuals breaching the decree is a fine of N100,000 (£2,900 or $4,500) or two year imprisonment, or both.

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The government also capped bank lending rates at 21 per cent. Privately the government admits the measures have failed, with inflation rising to more than 100 per cent on an annual basis, and the market rate of the Naira plunging from N50 to N100 between June and November this year as receipts from the country's exports failed to keep up with the demand for foreign currency.

Shift from protest to power tests ANC

At the official launch of his autobiography in Johannesburg last week, South African President Nelson Mandela joked that such were the rigours of his office that he sometimes longed for the relative calm of prison, writes **Mark Suzman in Johannesburg.**

As his African National Congress gathers tomorrow in the Afrikaner city of Bloemfontein for its first national conference since winning the April election, it is a sentiment that will be appreciated by the 3,000 delegates – the transformation from liberation movement to government is proving much more demanding, and the social and economic fruits of political victory far more elusive, than expected.

Eighty-three years after its foundation, having weathered decades of the imprisonment, torture, exile and murder of its members at the hands of the white government, the ANC will be hoping to emerge from its first post-apartheid conference with a united front and shared vision for the new era.

Although Mr Mandela's popularity among blacks remains at levels other heads of government can only dream of, and is growing steadily among other race groups, the ANC as a party is losing ground.

Paid-up membership has fallen off sharply since April, contributing to a budget crunch that has forced the retrenchment of a large number of party officers. More seriously, while black expectations were never as unrealistic as whites feared, the government's failure to begin implementing its much-vaunted jobs and housing programmes has led to an upsurge in grassroots dissatisfaction – with the result that opinion polls show the ANC's national support has dropped from 60.6 per cent in April to 53.6 per cent in September.

Part of the problem is that members of the new national and regional parliaments are finding that their experiences in the protest movement are of limited use when trying to draft and implement legislation. As Mr Tokyo Sexwale, premier of the Gauteng region, the country's most powerful province, asked rhetorically last month: "Are we in power or just in office?"

The primary theme of the conference – "From Resistance to Reconstruction and Nation Building" – reflects this concern. It is a theme which acknowledges the ANC's inability as yet to manage the transition to efficient administration. It is also, however, a theme designed to appeal to the party's core black constituency to try to offset disillusionment with what some ANC members describe as the government's overly reconciliatory attitude to whites.

In an official position paper for the conference, drafted last month, Mr Thabo Mbeki, deputy president, called on the ANC to refocus its attention on its mass base – "the black working class, black rural poor and the significant section of the black middle strata". The government will be hoping this Africanist rhetoric will be enough to defuse the radical elements at the conference.

But there are other problems to be overcome, particularly concerning the party's relationship with its traditional allies. Although the ANC remains in formal alliance with the country's largest labour federation, Cosatu, as the government it is now reluctant to condone strikes and inflationary wage demands that a year ago it would have supported.

Similarly, while the civic associations which sprang up in the 1980s as opposition movements to imposed local government structures are still formally aligned to the ANC, the two groupings have clashed publicly (and sometimes violently) on the issue of continued rent and service boycotts in the black townships. The government, desperately wanting extra revenue to fund development projects, is insisting that residents resume payments or face eviction, a stand the associations are unwilling to endorse.

Politicking within the ANC over who should hold senior party posts is complicating the situation. Mr Mbeki remains the front runner to be elected deputy president of the party in place of the ailing Mr Walter Sisulu, but the occasion will also be an important gauge of support for his chief rival, Mr Cyril Ramaphosa.

After his defeat in the fight for the deputy presidency of South Africa, Mr Ramaphosa, who is the party's incumbent secretary-general, has kept a low profile. In recent months there has been speculation he may withdraw from politics, perhaps accepting a job in the private sector. However, in the past few weeks most of the ANC's regional groupings have voiced support for Mr Ramaphosa, who now seems likely to retain his position.

But whatever tribulations the ANC-led government is forced to address, one thought will be uppermost in the mind of every one of the delegates gathered in Bloemfontein – they are challenges that the party's founders would have been only too pleased to face.

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Mercosur to be formally launched after ministers negotiate last details of trade pact

Four nations to sign up to customs union

By Angus Foster in Ouro Preto, southern Brazil

The four member countries of the South American Mercosur customs union, launched in 1991, yesterday began a final meeting setting the seal on the formal establishment of the trade area on January 1.

Foreign ministers from Brazil, Argentina, Paraguay and Uruguay met in the southern Brazilian town of Ouro Preto, a colonial gold mining centre, to agree final details about the customs union. The four presidents are due tomorrow to sign the Protocol of Ouro Preto, which will put the union into effect and spell out the workings of Mercosur institutions including procedures such as appeals.

Mercosur

Ministers are also negotiating final lists of products to be exempted from the free trade area within the four countries, and also from the common external tariffs (CET) of 0-20 per cent on imports from outside the union.

Mr José Artur Denot Medeiros, Brazil's main Mercosur negotiator, said between 5 and 10 per cent of total trade would retain domestic tariffs for a further four years to give uncompetitive industries more time to prepare for customs union. Tariffs would be retained to protect such items as Argentine paper and Brazilian processed fruit, but will be phased out according to pre-arranged timetables.

A further 10 per cent of items, mainly sensitive products such as high technology and capital goods, will not adopt the CET until early next century. This is designed to help Brazilian companies which are currently protected by tariffs of 20-35 per cent. Brazil's tariffs will fall, again by a pre-arranged timetable, to meet the CET of 14-16 per cent for these sectors.

Brazil and Argentina, which account for more than 95 per cent of Mercosur's GDP, are also expected to announce details of a package of compromises to help Argentine wheat compete in Brazil against subsidised exports from North America. The two countries are also due to approve closer integration between their two car industries.

Mercosur has led to a rapid increase in trade between the four countries as tariff and other barriers have been progressively removed. Trade within the four partners increased from $3.6bn in 1990 to $8.7bn last year. Despite the success of the venture, Brazil and Argentina now want to consolidate recent gains rather than push for a full common market.

Decisions will continue to be taken by the four countries' governments and there are no plans to set up a European-style Commission. Brazilian and Argentine fears about diminished sovereignty snuffed out a Uruguayan proposal for a supranational court to rule on trade disputes. Instead, the four countries are expected to announce a complaints process with final appeal to a previously established, but so far untested, arbitration tribunal.

Leaders are expected to discuss in detail Mercosur's role within the Free Trade Area of the Americas, which all American leaders except Cuba last weekend agreed to set up by 2005 at last week's Summit of the Americas in Miami. Mercosur has already invited Chile and Bolivia to join as free trade rather than customs unions members, and both countries will attend the Ouro Preto summit as observers.

Sutherland warns over growing recourse to anti-dumping actions

By Frances Williams in Geneva

Mr Peter Sutherland, Gatt director-general, yesterday warned that the achievements of the Uruguay Round global trade accords could unravel if governments abused fair trade rules to protect special interests.

In a review of developments in the trading system since spring 1993, Mr Sutherland said confidence in the new system depended on a willingness to abide "by the letter and spirit" of the World Trade Organisation, which succeeds the General Agreement on Tariffs and Trade next month.

Nearly 60 of Gatt's 125 members have now ratified the WTO accords and Mr Sutherland is predicting that up to 100 nations will be WTO members from January 1.

Presenting the review to Gatt's governing council yesterday, Mr Sutherland urged "judicious use" of countries' room for manoeuvre in implementing the Uruguay Round accords in order not to erode the benefits for world trade.

His anxieties, and those of many Gatt members, centre on the growing use of anti-dumping actions to keep out cheap imports, and the proliferation of regional trade groupings. Though both are permissible in principle under international trade rules, they are increasingly seen as stretching those rules to the limit and beyond.

Of 91 requests for consultations between 1989 and 1994, the first step in Gatt's disputes settlement procedure, a quarter related to anti-dumping actions, the report notes. This partly reflects the rising numbers of such actions and partly "an increasingly wide gap in perceptions of the acceptable limits of actions".

After a peak of 251 cases in 1992-93, the number of anti-dumping investigations launched by the 25 members of Gatt's anti-dumping code dropped back to 226 in 1993-94. However, this drop mainly reflected the earlier surge in suits brought by US and Canadian steel producers.

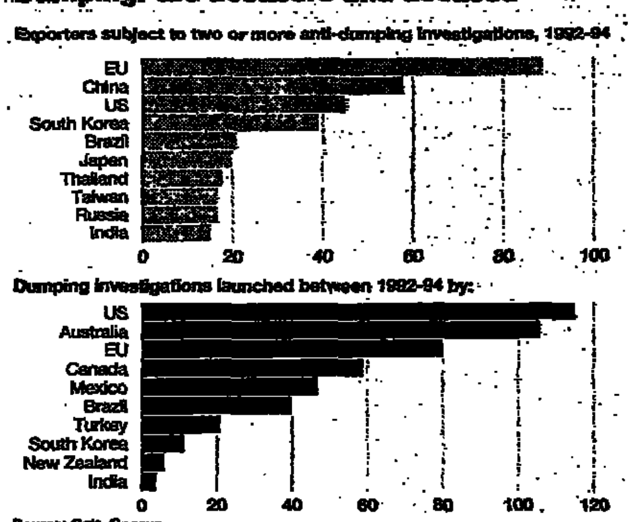
Investigations initiated by the European Union and Brazil have risen sharply, leaving the EU and the US joint "leaders" in 1993-94 with 47 cases each, followed by Australia and Brazil. The US had by far the largest number of anti-dumping measures in force - 306 in June 1994, up from 279 a year earlier - while the EU came second with 157, down from 185 the previous year.

However, the report points out that the most frequent users of anti-dumping actions are also frequent targets. EU companies head the list (69 cases in the two years to mid-1994), with almost half the cases concerning Germany and France. China was the biggest single country subject to investigation (58 cases), followed by the US (45). The last couple of years have also seen more anti-dumping suits against imports from eastern Europe, notably Russia and Ukraine.

The Gatt report says 11 new regional trading arrangements – all in Europe – were notified to Gatt between April 1993 and November 1994, bringing to 40 the total notified over the past five years.

It is generally admitted that Gatt's procedures for examining the consistency of free trade pacts with fair trade rules are inadequate. Virtually none of the working parties set up to examine regional trade arrangements has been able to agree on their Gatt conformity.

Dumping: the accusers and accused



Source: Gatt, Geneva

Thailand invites $4bn power station bids

By William Barnes in Bangkok

Thailand's electricity authority yesterday invited bids to build and operate $4bn of power plant projects with output totalling 3,800MW by 2002.

The tender, announced as part of the gradual privatisation of Thailand's energy sector, has aroused considerable interest among major international power generators and local construction companies. The bids to supply 1,000MW in the year 2000, 1,400MW in 2001 and 1,400MW in 2002 must be in by the end of June 1995.

Successful companies will be well placed to bid for four further 1,700MW projects coming on stream every year between 2003 and 2006. A spokesman for the electricity authority (EGAT) said he expected all foreign bidders would bring in local partners: British Gas has already teamed up with Thailand's Union Energy and Mitsui said it would soon announce a link with a local partner.

The tender process has been delayed for several months following complaints by potential bidders in August that the original draft terms were too tough. EGAT said it had softened its demands which previously included the right to take over any project that it deemed was not fulfilling its contractual obligations. Foreign executives said that this condition would have made it difficult to obtain financial backing.

The Bangkok representative of the Hong Kong group Hopewell Holdings, Mr Colin Wier, said the project was "a first for Thailand" and would provide companies with interesting opportunities but added: "We will have to think long and hard about the ground rules."

EGAT will judge each bid primarily on price although financial backing and experience will also be taken into account. The choice of fuel is likely to be difficult as the government has indicated its preference for environmentally friendly fuel, especially natural gas. Thailand, however, has no spare gas supplies. These would have to be bought from Burma or elsewhere.

EGAT is cautiously seeking private sector help to meet demand for electricity which is rising by 11 per cent a year. The Asian Development Bank has calculated that Thailand needs to invest $22bn by 2000 to meet projected electricity demand.

The first step in the privatisation programme was the sale of 50 per cent of the Electricity Generating Company, which owns a power station in southern Thailand, earlier this year.

This was a popular but relatively modest-sized flotation with a stock market value of about Bt8bn. EGAT itself plans to go public within three years.

WORLD TRADE NEWS DIGEST

Foreign chip sales up in Japan

Non-Japanese semiconductor manufacturers gained a record 23.2 per cent of the Japanese chip market in the third quarter, up from 18.1 per cent in the same period last year, US and Japanese government officials reported yesterday. The rise should help defuse tensions between Washington and Tokyo over the long-running chip trade battle. In previous trade agreements, the US and Japan agreed to a target 20 per cent foreign share of Japan's market for semiconductor products. Before the first agreement in 1986, the foreign share stood at 8.5 per cent.

Mickey Kantor, US trade representative, welcomed the increase in foreign market share calling it a "a very positive development" that showed the success of a results-oriented agreement but he warned against "backsliding". The Japanese market, which accounts for about one third of world chip sales, is expected to be worth almost $30bn this year, according to industry statistics. "There is no doubt that the trade agreements have produced results," said Mr Andrew Procassini, president of the Semiconductor Industry Association, a US industry trade group. *Louise Kehoe, San Francisco*

EC agrees shipbuilding accord

The European Commission has agreed a shipbuilding accord drafted by the Organisation for Economic Co-operation and Development (OECD) and expressed hope that European Union member states would approve it on December 20. The plan, designed to remove state aid from the shipbuilding sector to make it more competitive, allows for some government support in France, which is concerned about the effect of the pact on its shipbuilding industry. *Reuter, Brussels*

Coca-Cola plant for Ukraine

Coca-Cola Amatil, an Australian-based distributor for the American soft drinks giant, plans to open a new distribution centre and a production plant in Ukraine. The expansion follows similar moves in Slovakia, Hungary and Belarus to gain market share and challenge Pepsi-Cola in former Communist countries. The new factory, under a *joint-venture project* with Kolos brewery, will produce Coke in Lviv, a western city. The production company, with an initial $11.5m in capital, is 57 per cent owned by Coca-Cola Amatil and the rest by Kolos. *Matthew Kaminski, Kiev*

Thai toll road wrangle ends

A 15km motorway from the centre of Bangkok almost to the city's international airport was opened yesterday, two years late. The Don Muang Tollway Company expects to be able to complete its delayed Bt12bn ($478m) stock market listing and raise $50m following its victory in a contract wrangle with the government. The original contract drawn up stipulated that two flyovers competing with the motorway would be knocked down. After a long row, the government decided to have the flyovers turned 90 degrees to serve east-west traffic and this week gave the company permission to build a 5.5km extension to the airport. *William Barnes in Bangkok*

■ South Korea's Goldstar has agreed to supply CD-ROM drives to Italian computer maker Olivetti. Goldstar, a unit of the Lucky-Goldstar Group, said a formal contract would be signed soon for the $60m deal to supply about 500,000 double- and quadruple-speed drives to the end of next year. *Reuter, Seoul*

■ ABB, the electrical engineering multinational, has signed a co-operation agreement with Velnii and Nevz, two Russian rail equipment suppliers, to design and build a prototype electric locomotive equipped with ABB power electronics. After development of the prototype, a joint venture is expected for volume production of the locomotive, which ABB said could play a key part in the planned modernisation of the Russian rail system. Velnii and Nevz are part of the Novocherkassk industrial group, based in the city of the same name about 700 miles south-east of Moscow. *Andrew Baxter, London*

All of these securities having been sold, this announcement appears as a matter of record only.

TELEWEST

TeleWest Communications plc

Global Offering
of
216,000,000 Ordinary Shares
or American Depositary Shares
at
182p an Ordinary Share
U.S. $28½ an American Depositary Share

Joint Global Co-ordinators

Kleinwort Benson Securities

Morgan Stanley & Co.
Incorporated

U.K. and International Offer
of
108,000,000 Ordinary Shares
or American Depositary Shares

Kleinwort Benson Securities

Cazenove & Co.

Morgan Stanley & Co.
International

ABN AMRO Bank N.V. — **Daiwa Europe Limited** — **Deutsche Bank** Aktiengesellschaft

Paribas Capital Markets — **Swiss Bank Corporation** — **Toronto-Dominion Bank**

U.S. Offer
of
108,000,000 Ordinary Shares
or American Depositary Shares

Morgan Stanley & Co.
Incorporated

Kleinwort Benson North America Inc.

Donaldson, Lufkin & Jenrette
Securities Corporation

Goldman, Sachs & Co.

Lehman Brothers

Bear, Stearns & Co. Inc. — **CS First Boston** — **Furman Selz** Incorporated — **Genesis Merchant Group** Securities

Lazard Frères & Co. — **Merrill Lynch & Co.** — **Moran & Associates, Inc.** Securities Brokerage

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December 1994

President due to outline $50bn proposals in televised speech

Republicans damn Clinton tax cut plans

By George Graham in Washington

Republican leaders yesterday took pre-emptive aim at President Bill Clinton's proposals for a middle class tax cut, dismissing them as inadequate even before they had been made. Mr Clinton was due to outline his plans in a televised speech last night, and was expected to propose tax cuts totalling around $50bn (£32bn) over five years.

Senator Phil Gramm, a Texas Republican who has already announced his intention to challenge Mr Clinton for the presidency in 1996, said yesterday that the president was "more than a day late and more than a dollar short".

Mr Gramm said that the lower limit for a tax cut was the figure of $107bn promised in the contract with America *manifesto*, on which most Republicans in the House of Representatives campaigned in the November elections.

"I am not going to support a tax cut for families that short-changes them, and the president's proposal is going to be a non-starter unless it at least meets the level that has been set by the House of Representatives," Mr Gramm said. Mr Haley Barbour, Republican National Committee chairman, said Mr Clinton was trying to jump on the tax cut train after it had left the station.

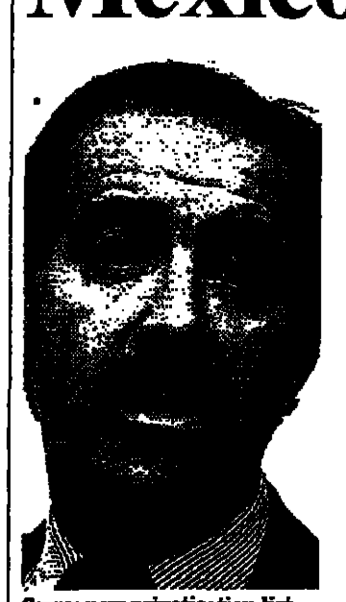
Mr Clinton has been considering an income tax credit for families with children, but with a lower income ceiling than the $200,000 proposed by Republicans, and possibly limited to children under six. He has also been looking at a tax credit for vocational training.

But the president has also promised he would only propose a tax cut if he could pay for it with offsetting spending cuts, and has been examining options as radical as abolishing entire government departments, such as Housing and Urban Development or Transportation.

Republicans warned Mr Clinton, however, that in a poker game over who could propose the biggest tax cut and the largest reduction in government, they would outbid him. "We will see him a tax cut and HUD, and raise him Education and Energy," said Mr Edwin Feulner, president of the Heritage Foundation, a right wing Washington think tank.

But fiscal conservatives are alarmed at the tax cut bidding war now in progress. "Don't buy this pig in a poke. It may feel good in the short term, but it's not going to feel good in the long term," said Senator Bob Kerrey, a Nebraska Democrat who chaired a bipartisan commission appointed to consider long term reforms to bring the government's finances into balance.

Mexico raises privatisation revenue targets



Serra: new privatisation list

By Ted Bardacke in Mexico City

Mexico is to embark on an ambitious new privatisation and foreign borrowing programme designed to raise $5.5bn (3.5bn) in 1995, according to Mr Jaime Serra Puche, the new finance minister.

The funds will be used to stimulate infrastructure investment and help finance the country's large current account deficit.

Mr Serra said in an interview this week immediate candidates for privatisation are the high-volume Mexico City-Querétaro and Mexico City-Puebla toll roads and the country's ports. Significant revenues will also come from the fees charged to new entrants in the long-distance telephone service market when the former state-owned telephone company Telmex is stripped of its monopoly status in January of 1997.

Although Mr Serra stopped short of designating the country's rail system and secondary petrochemical plants among other state-owned industries to be sold off, these sectors are expected to be included in the new privatisation list. This would allow the Mexican government to reach its stated revenue target without being forced to achieve the $5bn foreign borrowing limit it has set for itself in 1995.

Privatisation of the railways would almost certainly require a constitutional amendment, while the regulatory framework for petrochemical privatisation already exists.

Funds raised from privatisation and other one-time revenues, together with foreign borrowing by government entities, will be used to provide financing guarantees and/or risk capital for private infrastructure projects. Export promotion programs would also be targeted with these new revenues in an attempt to reduce Mexico's trade deficit, which in the first nine months of 1994 grew by 31.9 per cent over the same period last year.

Mr Serra also acknowledged that privatisation and other structural reforms had additional motives. He said the moves willsignal that Mexico was going forward with the sort of reforms that would strengthen the confidence of foreign investors in the country and lead to more capital inflows.

Most analysts consider securing sufficient foreign capital to be Mexico's biggest macroeconomic challenge in the coming year. The government is forecasting a current account deficit of 7.8 per cent of GDP, or approximately $30.5bn, a slight increase over 1994's estimate of 7.6 per cent and $29bn respectively. This year capital inflows fell short by some $7bn, causing a corresponding drop in international reserves, which now stand in the neighbourhood of $17bn.

Mr Serra rejected a similar fall in reserves during 1995, arguing that if capital inflows were to slow down so would the economy and imports. At the same time, however, he did acknowledge that this was a long-run relationship and there could be a short-term gap between the supply of foreign capital and demand for foreign goods, as happened in 1994.

"The reserves exist to cover this gap," said Mr Serra, rejecting time and time again in the interview that the way to soften a possible shortfall in the capital account was via a devaluation in the peso.

Were such a gap to repeat itself in 1995, Mr Serra said that although "we're not going to mess with the markets," he would rather see interest rates raised before he would agree to a one-off devaluation of the peso or an increase in the daily depreciation of the exchange rate band.

Account offers credit to countries in economic transition

IMF to extend loan facility

By George Graham in Washington

Executive directors of the International Monetary Fund agreed yesterday on a four month extension of the Fund's systemic transformation facility, a loan account that provides special assistance to help formerly communist countries make the shift to a market economy.

The IMF board agreed to extend the STF, which was due to expire at the end of this year, to April 30. The STF offers loans to countries in economic transition under looser policy conditions than a normal IMF standby loan.

IMF officials and member governments had hoped to agree on a longer STF extension at the Fund's annual meeting in Madrid last September, as part of a much larger package of measures intended to expand the resources available to developing countries and especially to the new market economies of eastern Europe and the former Soviet Union. Mr Michel Camdessus, the IMF's managing director, had wanted the package to include a general distribution of SDR36bn ($52bn) to all member countries.

The plan fell apart in Madrid in a blazing row between the Group of Seven leading industrial nations, which wanted a much smaller distribution of SDRs, and developing countries. Developing countries also objected to the STF extension, complaining that the G-7 and the IMF have devoted all their attention to eastern Europe and the former Soviet Union.

The IMF did agree at the time to expand its access limits for member countries. Standby loans have been increased from 68 per cent of a country's quota – a measure close to its share in the IMF and calculated in reference to the size of its economy – to 100 per cent, with similar increases for other IMF loan accounts. That measure alone will increase the amount Russia could borrow from the IMF by $2bn.

Agreement on an extension of the STF to April 30 gives IMF member countries enough time to resolve their dispute before the spring meetings in Washington of the Fund and the World Bank.

G-7 officials expect that the SDR row will be resolved by then, although little progress on specific solutions appears to have been made so far.

The IMF has been considering not just extending the STF, which has so far lent a total of $4.9bn to transitional countries, but of expanding access. Countries are at the moment allowed to draw on the STF twice, but the possibility of a third drawing has been raised.

● The IMF yesterday approved a loan of 16.9m SDRs to Armenia under the systemic transformation facility. This is the former Soviet republic's first IMF borrowing, and follows progress in efforts to stabilise the economy.

The IMF said monthly inflation had fallen from over 50 per cent in January-May to 3-6 per cent in June-September, though it then increased to 13 per cent in October-November.

Camdessus: wanted SDR36bn distribution Tony Andrews

Strike impasse dashes hopes for a new start to baseball

By Jurek Martin in Washington

Negotiations to resolve the baseball players' strike that cut last season short have broken down, greatly reducing the chances that the sport will start again next spring in anything approximating its current major league form.

Owners of the 28 teams, meeting in Chicago late yesterday, were expected to declare an impasse in the talks, a legal device under labour relations law that would enable them unilaterally to impose a cap on player salaries.

The players' union is likely to counter with a lawsuit accusing management of failing to bargain in good faith. This would lead to an investigation by the National Labour Relations Board, the independent federal agency, which could last two months.

The NLRB has already sided with the players on a related issue by announcing that it has filed a complaint that the owners improperly withheld $7.8m (£5m) in contributions to the players' pension fund due on August 1, less than two weeks before the strike started.

Last week the department of Labour certified the dispute as official, thus clearing the way for the union to petition the government not to grant visas to non-American players, mostly from Latin America, whom the owners have threatened, to import as substitutes, along with minor league players, in an attempt to get some kind of season under way next year.

There had been some hope earlier this week that the latest round of negotiations was making progress on alternatives to a pure salary cap as the best means of sharing revenues more equitably between rich and poor clubs. Modified proposals by the owners on taxing team payrolls had not been dismissed out of hand by the players, but no agreement proved possible.

With spring training due to start in 10 weeks, there has been no break in player solidarity, though public opinion now tends to blame them more than the owners for the problems of the country's national sport. Some owners have expressed misgivings about sacrificing another season, but the majority seem determined to let the confrontation run its course.

Caracas takes over more banks

By Stephen Fidler, Latin America Editor, in Caracas

Venezuela's banking crisis this week claimed another victim, as the government took over the Grupo Latinoamericano, a conglomerate of 43 financial and other companies, because of troubles at the two banks it owned.

The two banks in the group controlled by Mr Orlando Castro – República and Progreso – will continue operating. They were taken over following the failure to service loans made earlier this year by government agencies in an attempt to prop up the bank and, more recently, settlement difficulties. The group "had a liquidity problem and a solvency problem," according to Finance Minister Julio Sosa.

The takeover means the state now owns about 70 per cent of the banking system, following a crisis which erupted at the start of the year. Ironically, the first bank to go under – Banco Latino – reopened its doors this week, as did its Edge Act subsidiary in Miami.

Mr Sosa said in an interview that he believed the crisis was drawing to a close. "I think we are more or less getting to the end of it. People now realise that their deposits are OK." Government policy now is to keep the banks operating.

Cardoso on his mark for a reforming sprint

The Brazilian president-elect is clear about his policy priorities, writes **Angus Foster**

Brazil's Senate gave an effusive farewell on Wednesday to Mr Fernando Henrique Cardoso, who is to become the country's next president on January 1. If he pursues the policies needed to modernise the Brazilian state, and which are sure to be unpopular, it may be some time before he is invited back.

Mr Cardoso used the occasion to make a wide-ranging speech listing the priorities for his four-year term in office. Rather than grandiose visions, he concentrated on reforms he needs to tackle during the first few months.

"Brazil is in a hurry. We have only a limited period to take the measures to guarantee stability and prepare for a new cycle of development," he said.

Mr Cardoso's haste is prompted by time bombs within the government budget and social security system. Both threaten the success of the Real currency which Mr Cardoso planned when he was finance minister. The currency reduced monthly inflation from about 50 per cent before its July launch to 2-3 per cent today and its success ensured Mr Cardoso's election victory.

The Real worked partly because the government has this year balanced its budget, mainly by severe spending cuts. Next year, however, the government is forecasting a deficit of $5bn-$10bn (£3.2bn-£6.4bn), equal to 1-2 per cent of GDP and enough to prompt worries about inflation. Meanwhile, Brazil's badly designed social security system, which will soon have more beneficiaries than contributors, is set to cost $28bn in 1995, against just $14.2bn three years ago.

In his speech Mr Cardoso highlighted three areas for reform, all requiring constitutional changes. He said the central government's responsibilities, and spending obligations, needed to be devolved to local government and the private sector; government revenues needed to be raised by an overhaul of the tax system; and the social security system had to be reformed to remove anomalies and lax rules.

None of these ideas is new, and there is widespread agreement in Congress and the business sector that reform, in general terms, is needed. The problem, however, and the reason why change has not yet happened, is that specific proposals proved unpopular and often threatened big losses for powerful interest groups.

Mr Cardoso, a cautious man who likes to build consensus before acting, took care in his Senate speech not to mention any unpopular measures. Talking about tax reform, he stressed the need to cut taxes on exports and basic goods for poorer families. He did not dwell on his probable need to lift the overall tax burden from 25 per cent of GDP, which is low by international standards.

He said he would send specific ideas on constitutional reform to Congress in February. Any changes would need three fifths approval; Mr Cardoso so far looks capable of mustering the support.

His Social Democracy party (PSDB) and its allies have just under half the seats in Congress, and earlier this week he won the backing of the Democratic Movement (PMDB), Brazil's biggest political party. But until Mr Cardoso takes office and spells out his plans, it is difficult to assess the loyalty of his allies.

"He will have two to three months' honeymoon, then it will get difficult," Mr Luiz Pedone of the University of Brasilia predicts. "There will be strong opposition, including from some of the government's backers, on controversial reforms like reducing the central government's spending obligations and the size of the public sector."

The reforms Mr Cardoso is seeking will take time to affect significantly the government's budget and will not start reducing its spending obligations until 1996 at the earliest. Next year's deficit will probably have to be covered by privatisation receipts.

Mr Cardoso said Brazil's privatisation programme, which has lagged behind those of neighbours such as Argentina, needed to be "accelerated and extended" to energy, transport, telecoms and mining.

Departing from his prepared text, he spoke of how impressed he was by US telecommunications technology on a recent visit to Miami. Brazil's telecoms' monopoly – which has suffered from a lack of competition and government under-investment – needed to be made more "flexible" or be left behind, he said.

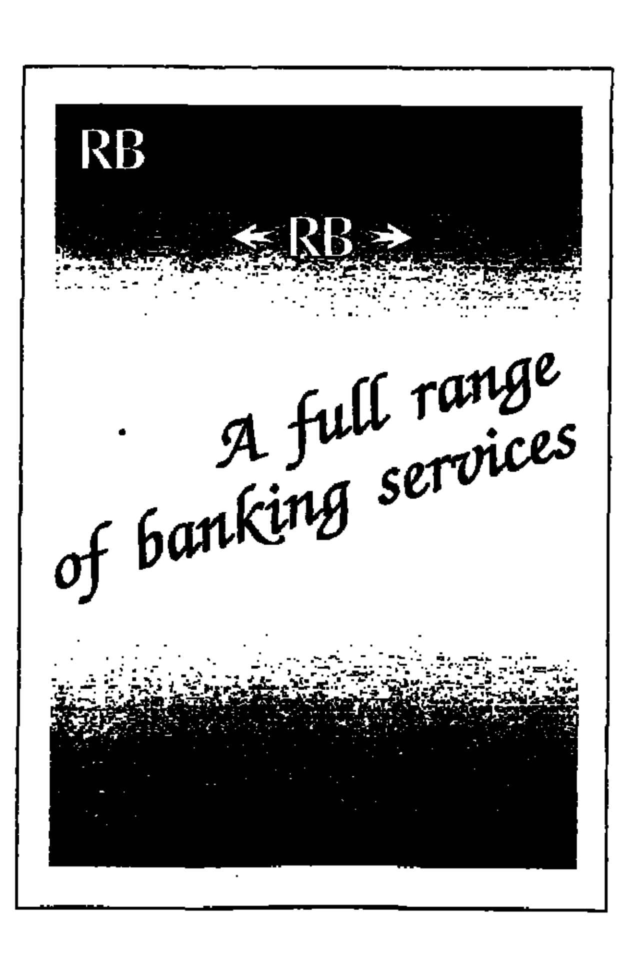
These signals, which will be welcomed by foreign companies eyeing Brazil's telecoms market, suggest Mr Cardoso's cautious conversion to privatisation is continuing. However, he stressed the state need not lose control of its monopoly, and he did not mention the state-owned oil monopoly Petrobrás.

Persuading Congress to back speedier privatisation will also be difficult. State-owned companies are still seen by many politicians as sources of patronage.

A member of the outgoing government said Mr Cardoso's popularity when he took office would give him clout to make many of the changes he needed, but only if inflation stayed below 2-3 per cent a month and people continued to feel better off.

"The first half of next year will be crucial for approving these reforms. The danger is the new government will spend too long trying to reach compromise solutions with interest groups which stand to lose out, and the door will close."

Cardoso: Brazil is in a hurry



صكرا من الاحوال

Overseas development minister set for 'tough talking' with Treasury over cuts in aid budget

Chalker warns on recouping Pergau funds

By Peter Montagnon and James Blitz

Lady Chalker, Britain's minister for Overseas Development, has warned that her ministry might not be able to claw back all the money due to be spent in support of Malaysia's Pergau dam, even though the use of the aid budget for this purpose has been declared illegal.

The British government has said that the ODA's overall budget will not be affected for the next two years by a recent High Court ruling that has forced the Treasury to provide £48m in planned support for Pergau from its own reserves. But on Tuesday, Mr Douglas Hurd, foreign secretary, left open the question of what would happen in later years when the British government is required to pay £122m to the Malaysian authorities.

Lady Chalker said yesterday she expected there would be some "very tough talking" with the Treasury over whether the ODA budget should take cuts commensurate with the amount being paid for Pergau from Treasury reserves.

"It would be nice to have all the addition, but I don't expect we shall get it all," she said in an interview with the Financial Times.

Her remarks are bound to concern aid lobbies which had hoped the court judgment on Pergau would raise the amount of money spent on projects designed to alleviate poverty.

Under a High Court ruling last month, the ODA cannot make payments for the Pergau project because it is deemed to be "economically unsound".

But in a statement to the Commons earlier this week, Mr Hurd said the exact size of the ODA budget from the financial year 1996-97 would have to be determined in future public expenditure rounds.

Labour MPs and aid groups fear the ODA will end up indirectly financing the project because the aid budget will suffer cuts to compensate for the Treasury payments for Pergau.

Labour MPs reacted angrily in the Commons when the government said it would not restore the £24m which has already been spent on Pergau to the ODA budget.

But Lady Chalker said yesterday that the government had been through the judgment very carefully. "I believe we have complied with what the divisional court said absolutely to the letter."

The ODA had not decided how to spend the £48m that would be returned to its budget this year and next, she said, but it was likely to go on emergency relief in countries such as Bosnia and Rwanda.

The aid and trade provision had already been set for this year and the money would not be used for extra projects in this area, she said, although she vigorously defended the use of aid to help UK trade. "It's good for Britain, good for British jobs that we should be involved."

"We have an aid and trade system that is strict and gives British companies the chance to compete on equal terms with other aid donors who are also interested in trade."

EU ban on cow hormone extended

By Deborah Hargreaves

European Union agriculture ministers yesterday agreed to extend a ban on the use of the controversial milk-boosting hormone bovine somatotrophin (BST) for cows until the end of the decade following widespread resistance to the product.

Mr William Waldegrave, UK agriculture minister, was alone in voting in favour of the synthetic hormone, despite strong consumer opposition to its use in Britain.

BST, which is produced by Monsanto and Eli Lilley, the US biotechnology companies, is an artificial version of a naturally occurring hormone in cows which enhances milk output.

Mr Waldegrave said scientific evidence supported the use of BST. Consumers and animal welfare activists are concerned about its effects, including an increase in the incidence of mastitis in cows.

There was some confusion over the wording of the council's final decision on BST. Monsanto said the council had agreed that some farmers could make limited commercial use of the hormone in order to gain practical experience of its effects. UK government officials said this would be restricted to field trials.

The product received approval in the US six months ago and since then, Monsanto says it has been used by 10,000 dairy farmers on over 800,000 cows.

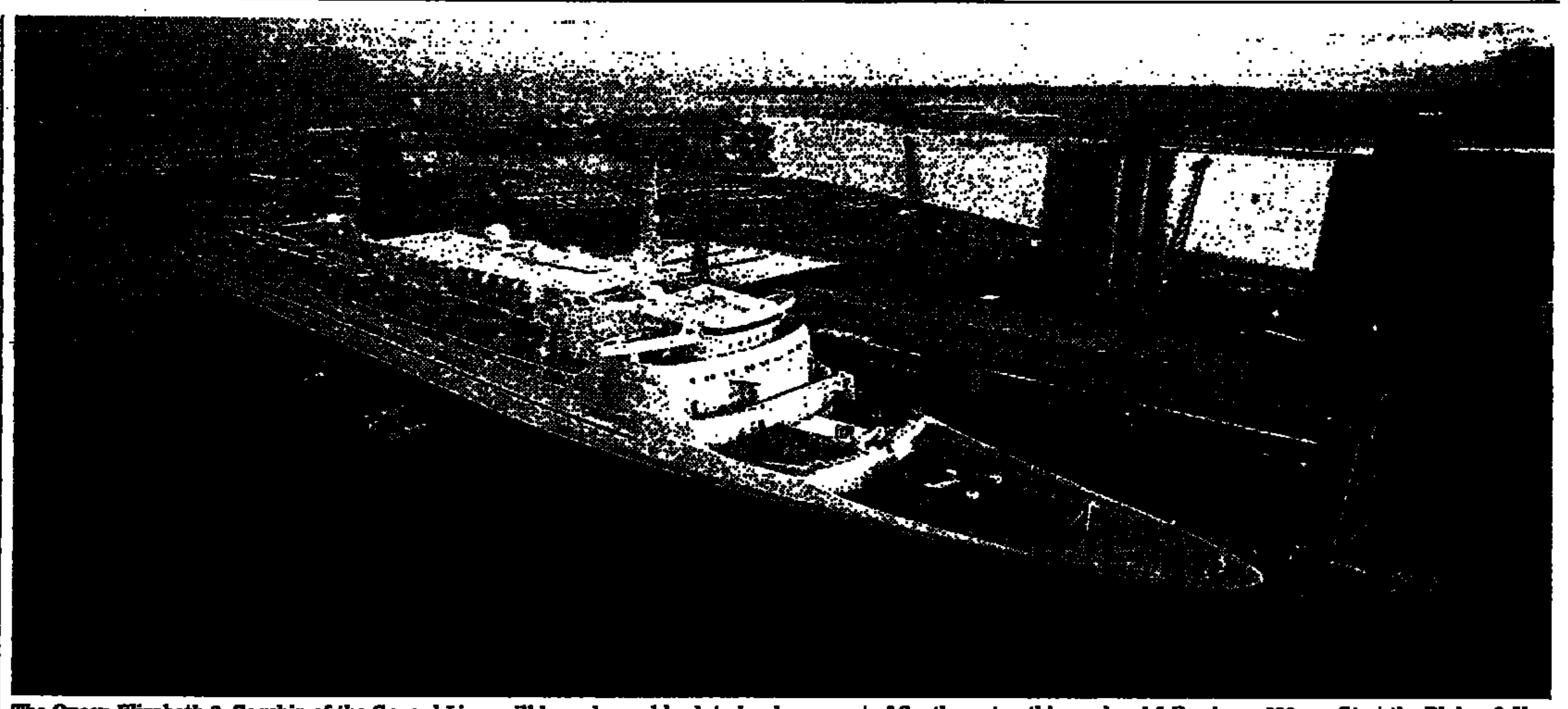
But the EU Commission was concerned about the economic damage that could be done by increasing milk output at a time when quotas are in place to limit production.

The ban on its use will now last until the milk quota restriction runs out at the end of 1999.

The EU Commission has agreed to prepare a report on further scientific trials by 1998. Consumer groups have called on the Commission to prevent any milk produced as part of the trials from entering the food chain.

Monsanto said there was no reason why milk produced using BST should not be sold to consumers.

The company produces BST near Vienna and Eli Lilley has a production site outside Manchester.



The Queen Elizabeth 2, flagship of the Cunard Line, will be welcomed back to her home port of Southampton this weekend following a £30m refit at the Blohm & Voss yard in Hamburg, Germany. The QE2 then sails for New York on Saturday at the start of a 117-night round the world cruise Picture: Glyn Genin

Retail sales data sluggish

By Philip Coggan, Economics Correspondent

Official figures on November's UK retail sales confirmed the impression left by the Confederation of British Industry survey this week – that consumer demand was sluggish in the run-up to the vital Christmas period.

Retailers are finding it difficult to attract shoppers without cutting prices. For example, according to the British Retail Consortium, department stores reported fragrance sales well ahead, but only with the help of price promotion that had damaged margins.

November's 2.5 per cent annual rise in retail sales volumes, seasonally adjusted, is the lowest increase since April 1993. In October the annual rise was a revised 3 per cent.

Seasonal adjustment is an important part of the statistical process at this time of year; November is normally the second busiest shopping month. While the seasonally adjusted figures show no change in sales between October and November, in unadjusted terms sales actually rose by 7.5 per cent.

The Central Statistical Office's preferred measure is to use a three-monthly average. On that basis, sales volumes in the three months to November were 3 per cent higher than in the same period of 1993. However, the rise compared with the previous three months (to August) was just 0.5 per cent.

In value terms, unadjusted retail sales in November were 3.4 per cent higher than in November last year.

Comparing the three months to November with the previous quarter, the strongest sector was household goods, which recorded a rise of 1.9 per cent.

Significant falls in sales of camcorders, video games and home computers were reported. Yet sales of white goods, televisions and hi-fis were up on a year ago.

Separately, Barclaycard said its credit card turnover was 9.4 per cent higher in the year to date than in the previous year.

CBI survey finds buoyant demand in manufacturing

By Peter Norman, Economics Editor

Demand for British manufactured goods is more buoyant than at any time since January 1989 and more companies are forecasting higher output in the next four months, the Confederation of British Industry reported today.

In its monthly trends enquiry for December, the CBI pointed to continuing upward pressure on output prices, although the balance of companies expecting to increase prices in the next four months stayed unchanged compared with November.

Mr Sudhir Junankar, the CBI's associate director responsible for economic analysis, said the latest survey showed that "the manufacturing recovery is likely to continue at a smart pace into the new year, with overall demand improving to its best level for nearly six years."

The survey, which covered 1,207 manufacturers between November 25 and December 14, found that 27 per cent thought their present total order book was above normal, 19 per cent below normal and 54 per cent normal.

The resulting balance of plus 8 per cent, which the CBI considers indicative of the trend, was the highest since January 1989. It compared with a balance of plus 5 per cent of companies in November and minus 19 per cent in December last year.

Export order books were also above normal, although the balance of plus 7 per cent in December was slightly below November's 10 per cent positive balance.

Over the next four months, a balance of 27 per cent of companies plan to raise output compared with 21 per cent in November and 9 per cent in December last year. However, output expectations were below the plus 30 per cent balance recorded in August.

The closely watched CBI indicator of companies planning to raise domestic prices was unchanged between November and December, with a positive balance of 22 per cent for both months. The CBI reported that 54 per cent of companies expected prices to stay unchanged in the next four months.

Mr Junankar said it was "encouraging" that manufacturers' output price expectations had levelled off.

Customs to review VAT

By Jim Kelly, Accountancy Correspondent

Britain's Customs and Excise department is to review whether VAT should be paid on some services sold to insurance companies after three successful actions by companies seeking tax exemption.

In the meantime, services similar to those provided in the three test cases are to be exempt from VAT and Customs has withdrawn legal appeals in the three cases.

However, most such services will still carry full VAT. "This is not a blanket exemption," said a Customs official.

A period of consultation with insurers and others will begin next year to see whether UK VAT exemptions match the those set out in current European law. A paper to begin the consultation period will be published in early 1995.

The move follows three successful appeals to VAT tribunals from Barclays Insurance Services Company, Countrywide Insurance Marketing and Curtis Eddington and Say.

The companies claimed that they should be exempt from VAT on services which they provided. They said the services fell under the broad description in the VAT Act of "the making of arrangements for the provision of any insurance." These included the provision of a help-line telephone inquiry service.

Any provider of services like those in the three test cases could be eligible for a repayment of tax and Customs advised that they contact their local VAT office.

If, as a result of the review, there are further changes to VAT liability then any change will not be retrospective.

UK NEWS DIGEST

Cabinet rows over replacement for RAF aircraft

A decision by the British government to purchase more than a handful of new Hercules transport aircraft would severely damage UK participation in the development of the European Future Large Aircraft, British Aerospace warned yesterday.

The warning came as a cabinet-level row over how the RAF should set about replacing its ageing Hercules fleet appeared to gather momentum at Westminster.

Mr Malcolm Rifkind, defence secretary, is understood to be pushing for up to half the current 60-strong Lockheed Hercules fleet to be replaced with the same company's C-130J aircraft.

But Mr Michael Heseltine, trade and industry secretary, is believed to favour refurbishment of the current fleet, which the RAF says will need replacement from 1996.

This would enable a decision on a long-term replacement to be delayed until 2002, when the FLA – for which BAe will build the wings – becomes available.

If the C-130J is chosen, Mr Heseltine is understood to feel that a maximum of 15 – equivalent to an operational RAF squadron – should be ordered. This would minimise the risk of undermining the FLA's chances of competing successfully with Lockheed for future orders.

The controversy over the aircraft order came amid signs of a fresh split in the cabinet over whether the government should offer a referendum on the next stage of European integration.

Mr Kenneth Clarke, the chancellor, has won Mr Heseltine's backing for an intense behind-the-scenes effort to persuade Mr John Major against appeasing the Tory right by committing the government now to a referendum.

Tunnel shuttle set to start

Passenger shuttle services through the Channel tunnel will start next Thursday following the award yesterday of a safety certificate to Eurotunnel, the tunnel operator.

The level of fares to be charged will be announced today. They are expected to be roughly comparable with those charged by the ferries, with which the shuttles will compete.

The start-up of passenger shuttles is 18 months later than originally planned but it completes the range of services offered by the tunnel following earlier launches of freight shuttles, through freight trains and Eurostar through services between London, Paris and Brussels.

Coffee price rise goes ahead

Nestlé, the multinational food company which produces the Nescafe brand of coffee in the UK, said yesterday it would go ahead with a 7 per cent increase in wholesale prices from December 20 in spite of a sharp drop in world prices over the past week.

Since the company announced the planned price rise on December 7, international coffee prices have dropped by 13 per cent. The world market has fallen by 40 per cent since September as assessments for world supply have become more optimistic.

Nestlé's forthcoming price increase will be the third rise this year in the wholesale market, and will inevitably push up consumer prices. The company said yesterday that it does not respond to short-term changes in coffee bean prices.

Kraft Jacobs Suchard, part of the Philip Morris group and one of Nestlé's competitors, announced yesterday it was cancelling a planned increase in French retail coffee prices over the next three months. The company said this was in response to lower world prices.

Rosyth wins refit order

The Rosyth dockyard in Fife, Scotland has won a £100m contract to refit the Royal Navy's nuclear submarine HMS Superb, it announced yesterday.

The 2½-year contract follows on from a similar contract for a sister submarine of the Swiftsure class, Sovereign, which is currently nearing completion.

Babcock Rosyth Defence, managers of the yard, which employs about 3,500, said work would start immediately and continue until mid-1997, providing work for up to 1,000 people.

Ballot for Peugeot workers

More 2,500 car workers at Peugeot Talbot's Coventry plant will be balloted in the new year on industrial action after rejecting a two-year-pay deal by almost four to one.

The staff, members of the TGWU, were offered 3.5 per cent in first year of the deal and 4 per cent – or the rate of inflation, if higher – in 1996.

One major area of disagreement is over compensation for loss of premium payments after the Ryton plant's recent move from day and night working to a double dayshift pattern, with work starting at 6am and 2pm.

Management claims to have compensated for any consequent loss by offering production workers lump-sum payments totalling £200 over the two-year period. The union wants the compensation payments to be consolidated into base rates.

Jaguar car workers are currently conducting a strike ballot after overwhelmingly rejected a two-year pay deal worth 7.5 per cent. Rover Group car workers last month voted narrowly to accept a pay deal which for most of them was worth 10.7 per cent over the next two years.

Tour operators cease trading

Two UK tour operators ceased trading yesterday – but hundreds of their customers currently abroad were assured their holidays were safe.

The Civil Aviation Authority said Ultimate Holidays and Transamerica Holidays were both covered by Air Travel Organiser's Licence bonds.

"Passengers currently abroad will be able to continue their holidays and travel home as planned," said a CAA spokesman. There will be no further outbound flights from midnight today.

Ultimate Holidays, based in Bishop's Stortford, Hertfordshire, traded as Spirit of the East and Ultimate Flights and specialised in travel to Europe, the US and the Far East. In July this year Ultimate took over Transamerica, based in Horley, Surrey, and traded as Transcanadian Holidays, American Vacations, Value Vacations and Transavers. The company specialised in North American breaks.

A spokesman for Transmerica said it had 300 passengers abroad at the moment and 15,000 booked to travel over the next 12 months.

Cautious welcome for trial results of new cancer drug

By Daniel Green

A maverick drugs industry entrepreneur may be about to prove his detractors wrong with a cancer drug that appears to be as good as existing treatments but without severe side effects.

The drug will be submitted for regulatory approval in the first quarter of 1995 and could be on sale in Europe by 1996.

Dr David Horrobin's company Scotia Pharmaceuticals yesterday published final stage clinical trial results on a pancreatic cancer drug EF13 that show that the life expectancy of cancer patients was up to two-thirds better than with normal chemotherapy.

Shares in Scotia Pharmaceuticals rose 21p to 274p after the company presented its results to City analysts.

Cancer experts gave the trial results a cautious welcome. Professor Gordon McVie, scientific director at the Cancer research campaign, a London-based charity, said that the results from the clinical trials were "encouraging".

But he pointed out that the trials compared EF13 with historic data on mortality. They would have been more convincing if the drug had been compared with a placebo in which neither doctor nor patient knew which was being administered, he said.

Scotia said that promising preliminary trial data meant there were ethical problems in knowingly witholding the drug from sufferers.

Professor Karol Sikora, cancer consultant at Hammersmith Hospital, said the results were "interesting" but "much more evaluation" was needed.

Cancer of the pancreas is one of the deadliest, with about 60,000 deaths a year in Europe and north America. Historic data suggests that with the normal treatment regime in the UK, morphine to kill pain, average life expectancy is just over three months.

With the intensive chemotherapy sometimes used in the US, the figure is seven months. With high doses of EF13, patients survived on average for one year.

With yesterday's share price rise, Scotia is the UK's second biggest biotechnology company by market capitalisation.

British Gas to transform showrooms

By Robert Taylor and Robert Corzine

British Gas is to withdraw all consumer advice and complaints services from its high street showrooms next month as part of the transformation of its network into a purely retail operation.

The company has agreed to trade union requests to station security guards at some shops because of fears that the withdrawal of services could aggravate some customers.

A trial of the new-style showrooms in nine cities has resulted in some customers threatening employees, according to British Gas officials.

At present consumers can use gas showrooms to pay bills, inquire about services, make complaints or receive energy efficiency advice.

But from January 3 the shops will be converted to wholly retail appliance outlets. The advice and complaint services will be available by telephone for the price of a local call. Customers who want to pay their bills in person will be directed to post offices.

British Gas plans to launch an advertising campaign in the next few days to inform the public about the changes.

Ofgas, the gas industry regulator, yesterday said it was satisfied with the alternative arrangements.

It regards the post office scheme, introduced earlier this year, as particularly effective, as gas bills can be paid at any of 19,000 post offices, compared with only 266 gas showrooms.

Meanwhile, the string of public relations pitfalls which has beset British Gas in recent weeks continued yesterday when MPs and consumer groups criticised the company for trying to impose deep pay cuts on several thousand showroom workers only weeks after Mr Cedric Brown, British Gas chief executive, was awarded a 75 per cent pay rise.

The House of Commons employment committee said it wants Mr Brown to testify at a hearing into the issue of executive pay next month.

Ulster loyalists satisfied on constitutional safeguard

Stewart Dalby reports from Belfast on the latest round of talks

Northern Irish loyalist leaders yesterday emerged from a historic first round of talks with British government officials and said they were satisfied that guarantees that the province would remain part of the UK would be honoured.

Mr Billy Hutchinson, leader of the delegation from the Progressive Unionist party, which has close links with the Ulster Volunteer Force, said after three hours of talks: "We are confident the constitutional guarantee is safe."

Mr Gary McMichael, leader of the delegation from the Ulster Democratic party – which has insights into the thinking of the Ulster Defence Association, the other main unionist paramilitary group – also said he was satisfied there would be no change in the constitutional guarantee that Ulster remains part of the UK while the majority so wishes.

"We have seen the British government discussion document and we are satisfied the constitution is safe," he said.

Mr Hutchinson, who has served a prison sentence for terrorist crimes, said the questions of arms surrender and prisoners were discussed, but were secondary to the constitutional question. "The surrender of arms is some way down the road. Guns and prisoners come second after our constitutional concerns."

The talks came on the anniversary of the Downing Street declaration, nine weeks after the loyalists announced their ceasefire and six days after the first exploratory talks between Sinn Fe'in, the political wing of the IRA, and British government officials.

Like those with Sinn Féin, yesterday's talks dealt with how representatives of the paramilitary groups might enter the peace process.

Mr Michael Ancram, the Northern Ireland political development minister who is in overall charge of discussions with the loyalists and Sinn Fe'in, said that arms decommissioning was central to the exploratory talks as far as the British government was concerned.

But the loyalists were unhappy with the government's suggestion in a discussion document that their parties did not enjoy sufficient electoral support to warrant participation in wider all-party talks on the province's future.

● The Northern Ireland peace process has already bought heightened interest in retail property in the province, with Belfast and the border towns expected to gain most, the Royal Institution of Chartered Surveyors said yesterday, Simon London writes.

Research carried out for the institution by the University of Ulster found property and construction companies were also expecting house building and sales to benefit. The peace process was expected to bring greater mobility of housing and greater religious mix in private housing areas.

A rise in cross-border economic activity is also predicted, with the Belfast-Dublin corridor likely to be the focus of development.

However, local companies are expecting intense competition as companies from the rest of the UK expand into the province over time.

Mr Denis Rooney, head of the institution working party, said: "Our report identifies tourism in particular as offering enormous potential for economic growth provided the right infrastructure is developed. That means new hotels and other facilities as well as communications services."

MANAGEMENT

Anglian Water is undergoing a radical overhaul in its drive for efficiency, writes **Jane Bird**

Keeping afloat

UPPA

Alan Smith: 'You don't create a winning business by nibbling away at the sides'

Alan Smith, group managing director of Anglian Water (AW), works a 60-hour week, including most Sundays and some Saturdays. Although he admits he's a workaholic, he discourages his staff from over-working. "It's a sign of inefficiency," he says.

Eliminating inefficiency has been the prime objective of an especially controversial management change programme at AW during the past year. It has involved 10,000 staff interviews, 900 redundancies and the elimination of multiple layers of management. Some £60m of last year's £192.2m pre-tax profits were set aside to pay for the exercise.

The scale of his task was illustrated this week when Ofwat, the UK water industry regulator, singled out Anglian in its Levels of Service 1993-94 report as one of four companies "where performance against one or more measure falls short of what customers can reasonably expect" (on two of the four criteria it scored well below average).

Nevertheless, Ofwat's observation that Anglian has "reported significant improvements already" will be an encouragement to Smith, who took over the helm in 1990, the year after flotation. Drastic action has been necessary, says Smith, because, despite its profitability, the company was still living with big problems inherited from its public-sector days.

Smith was initially anxious to avoid upheaval but in 1992 he attended the 10-week Advanced Management Programme at the Harvard Business School. One of the lessons he says he learned was the importance of radical change. "You don't create a winning business by nibbling away at the sides," he says. "That just leaves you with frayed edges."

In 1993, he commissioned a study focused on the 2,700 white-collar staff. It recommended that about one-third of them should go, and that the hierarchical command-and-control style management should be eradicated in favour of a flat structure based on coaching and empowerment.

Smith also canvassed his staff for their views on the company's management style in an employee opinion survey.

The survey results were pretty bruising, he recalls. "What came across was an organisation based on bureaucracy, poor internal communications and too much fear."

Smith, who had long campaigned for a more open style of management, held a series of employee presentations on the results of the opinion survey. It was an embarrassing experience being openly criticised on subjects such as his £163,000 salary, but he believes that attending the presentations was a turning point for many employees. "Until that moment many of them did not believe the changes we had been talking about would happen."

In getting rid of the 900 staff, Smith's main problem was to ensure that the right people stayed. So instead of keeping only those staff whose jobs remained, he decided all employees would have to re-apply for positions under the new order. Part of their appraisal would be an occupational personality questionnaire, designed to look for abilities that would be needed by the new AW: conceptual thinking; innovation; team-working; initiative; people-orientation; and flexibility.

"I'm aware of the hard road we've embarked on and am determined not to give up"

The questionnaire became a focus of resentment among some staff who felt they had been unfairly deprived of jobs. Some psychologists have also shed doubts on the validity of the technique, arguing that what people say in questionnaires may not bear much relationship to how they do their jobs. But Smith, who also filled in a questionnaire, insists they are valuable as an indicator of how somebody might be able to adapt to a new culture, especially managers.

"If you want a brave new world, spending half an hour discussing what someone has done for the past 10 years doesn't get you far ahead." In any case, the questionnaires were only part of the appraisal process, he says.

Another lesson he learned at Harvard was the role of Total Quality Management. "I knew it was important before I went, but I came away understanding that it meant far more than I had realised." One way that Smith put this theory into practice was by upgrading the status of staff working on water mains and sewers.

"They're our front-line people and if they were not properly customer-focused all our efforts behind the scenes would fall apart." Hence his decision to bring all these staff into a customer services unit. By October, all the appointments had been made, while at the same time the number of management tiers between any individual and the top had been reduced to three. Smith expects the changes to yield annual savings of £20m within the next two years.

One of the main outstanding tasks is to select a computer system capable of handling the streamlined flow of data across and up the organisation, in addition to the downwards route.

"You don't do anything big without computers," says Smith. "That was the third lesson I learnt at Harvard." Part of the £60m provision will help pay for new information technology systems.

Although most consumers feel they do not have a choice of water supplier Smith says competition is real. He is keenly aware of Severn Trent Water and Yorkshire Water pressing on his borders and of the possibility of smaller independent operators moving in to siphon off the most lucrative parts of the business.

Meanwhile, staff will have to be constantly vigilant to ensure they do not slip back into their bad habits, he warns.

Cultural changes do not happen overnight, and many companies that embark on ambitious programmes abandon them half-way through. "But I'm conscious of the long, hard road we've embarked on and am absolutely determined not to give up."

An article on psychometric tests will appear on Monday's management page.

CHRISTOPHER LORENZ

Ford's global matrix gamble

In just over a fortnight's time, on New Year's Day, one of the boldest organisational experiments of the decade will kick into action. After a remarkably – some would say dangerously – short preparation period of only 10 months, the Ford Motor Company will merge its North American and European operations into a single "global" structure.

In place of its long-standing twin organisations on each side of the Atlantic, which suffered from overlap, waste, poor communication and inadequate exchange of know-how, it is creating five transatlantic "vehicle centres", each with responsibility for particular sizes and types of vehicle. Four of them will be located in the US, but the one with the greatest growth potential, for small- and medium-sized cars, will be based jointly in Britain and Germany.

The centres will have responsibility not only for designing, developing and launching their respective lines of vehicles for North America and Europe, but also for the profitability and cash flow of each product throughout its life. Their development responsibilities will also cover Asia, although Ford's Asia Pacific and Latin American operations will remain officially separate from the new structure for now.

The group's transformation, christened "Ford 2000", has rightly attracted widespread attention on a series of counts:

- For its speed: most multinationals in other industries have taken a decade to shift their organisations gradually from national or regional structures to near-global ones.
- For the degree of "process re-engineering" involved: a key part of Ford's transformation is the introduction of a single set of worldwide processes and systems in product development, production, supply and sales.
- For the sharp "delayering" which is occurring in several parts of the organisation, halving Ford's average number of levels from 14 to seven.
- And for the degree of behavioural and cultural change involved in what is, in effect, an overdue bid by Ford's new chairman, Alex Trotman, to drag the company into the late 20th century by removing its outdated military mentality.

More than most other multinationals outside the Germanic world, Ford has suffered for too long from a "command and control" culture which has fostered the power of departmental barons at the expense of innovation, speedy decision-making and cross-functional teamwork.

But one key facet of the transformation has received surprisingly little comment, given its inherently controversial and risky nature: that the new structure consists of a matrix in which most managers – an estimated 10,000 of them – will find their lives complicated in the new year by having more than one boss.

Trotman has declared that matrix management will be 'more like jazz than a structured orchestra'

Most will report to a manager from one of the new vehicle centres. But they will also report to an executive from one of the "functional" departments (manufacturing, marketing/sales, purchasing etc.)

In many ways, the introduction of this matrix is Ford's most fundamental change. It is certainly the one being trumpeted most noisily within the company as vital to global teamwork and organisational effectiveness.

Ford's internal videos and other forms of employee communications have waxed lyrical over the past few months about the virtues of matrix management. They claim it provides "a flexible environment where all avenues are open, there are no one-way streets and no dead ends".

In similarly colourful vein, Trotman has declared repeatedly that, compared with Ford's established, pyramid-like organisation, matrix management will be "more like jazz than a structured orchestra". It will, he promises, allow considerable informality, and improvisation as situations change.

Trotman's metaphor is striking. But it ignores the fact that, while some jazz combos do achieve the "perfect harmony" which Ford says it wants to create, others produce only cacophony and chaos.

This was certainly the painful outcome of most of the matrix management practised widely in the 1960s and 1970s, especially by American multinationals.

With a few notable exceptions, their matrices were plagued by internal conflict, inefficiency, expense and delay, as divisional, geographic and functional managers debated and fought with each other. In many cases disputes were only resolved laboriously by powerful co-ordinators acting as matrix "police".

Ford hopes to rehabilitate matrix management by several means, both "hard" and "soft". They include: making doubly sure that objectives are agreed precisely between the vehicle centres and the functional side of the organisation; specifying clearly the respective roles and responsibilities of individuals towards each side of the matrix; changing appraisal and reward systems accordingly; only appointing senior executives who have shown they can work collaboratively; training everyone involved in the art of developing a co-operative matrix "mindset" which largely replaces the need for policing; and introducing much more intensive and open communication than the organisation is used to.

Enthusiasm for the new way of working is palpable within the company, not merely at the top. There is particular excitement about the visibility of the new vehicle centres, and the global future which they promise.

Yet to an outsider, the organisation has too much of the shape and feel of what business school academics call a "balanced matrix", in which the power of its two sides are too even for them to operate smoothly together. If this proves to be the case, Trotman will have to do some tricky retuning. That could prove almost as controversial as the current upheaval.

هكذا من الاصل

TECHNOLOGY

Clothes manufacturers are warming to man-made fibres, writes **Victoria Griffith**

Hot synthetics

The last decade has seen a revolution in cold-weather apparel, and winter sports enthusiasts face an enticing but confusing array of synthetics.

Choosing a wardrobe for cold-weather sports used to be straightforward. Skiers, skaters, ice fisherman and ice climbers would pack silk or cotton long-johns, wool sweaters and down jackets. The main concern was choice of colour.

These days stores stock clothes made of materials with enigmatic names such as Thermax, Polartec, Thinsulate and Akwatek. Most of the high-technology fabrics are derived from polyester, a material formerly associated mainly with cheap suits. Many consumers have a hard time believing in the new high-performance polyesters.

"If you had told me five years ago that polyester would be the state-of-the-art fabric for cold-weather clothes, I would have laughed," says James Riley, vice-president of design for Reebok, the sportswear company, which has recently branched out into cold-weather apparel. "But the yarn has become so fine and the level of knitting so advanced that it has become an incredibly flexible material."

Polyester is manipulated in various ways to improve insulation. "A main focus in the industry has been keeping moisture away from the skin," says Catherine Salfino, market editor for DNR, a leading publication of the US textile sector.

Long underwear is probably the weakest element in the traditional cold-weather ensemble. Silk and cotton both absorb moisture easily and although silk retains some of its insulating power when wet, damp cotton loses nearly all its warming capability.

Early experiments with synthetic long-johns in the 1970s, however, were not successful. Cold-weather retailers such as Patagonia used the plastic polymer polypropylene in early high-technology models. The new material's hydrophobic property kept users dry, but customers complained that their plastic-derived long-johns melted in the clothes dryer. The fabric also had an uncanny ability to retain odours.

David Browell

Cold-weather clothing has undergone a significant overhaul in recent years and more technological change is on the way

Synthetic long-johns have come a long way since then. Patagonia now offers a chemically-altered polyester called Capilene, which has gone through anti-microbial treatment to help the fabric reject odour.

DuPont has also come up with some important new materials. ThermaStat and Thermax are lightweight polyester materials that aim to trap air next to the body while funnelling moisture to the outer layer, where it evaporates. "These fabrics have a hollow chamber which helps them trap the warm air close to the body," says Arun Aneja, research associate with DuPont, "and air is a good insulator."

Aneja says scientists got the idea for the material by studying polar bear fur. "Each strand of polar bear fur is hollow, and that gives the bear incredible insulation."

Reebok challenges the idea that moisture should be drawn away from the skin in cold weather. The company is negotiating to make use of a new fabric, Akwatek, developed by Comfort Technology. Akwatek is a polyester that has undergone a chemical bath, and Reebok claims the material is equally effective in cold weather or warm.

"In warm weather, Akwatek draws moisture away from the skin to the outer layer, where it evaporates," says Riley. "But in cold weather, the warm moisture stays next to the skin."

Long-john technology may be impressive, but the textile industry hit the jackpot with polar fleece. Malden Mills was one of the early innovators of this material, which is now as ubiquitous on US streets as wool sweaters. Polar fleece is popular because it is lightweight, rejects moisture and dries quickly. Fleece, which entwines thousands of strands of microfiber polyester, also feels soft and furry.

In outerwear, scientists still face a formidable competitor in down. "It is hard to beat down in terms of warmth-to-weight ratios," admits Elizabeth Volkers, brand-manager for the insulation material Thinsulate at 3M. But once down is wet it offers almost no protection. It is also expensive and bulky. "Down jackets give people that Michelin man look," Volkers says.

Insulating material for outerwear uses the hollow chamber concept. High-technology fillers are honeycombs of fabric that trap warm air near the body – one of the main challenges for scientists is to fit the highest number of chambers in the smallest space. Thinsulate by 3M has emerged as one of the most popular insulating materials, particularly for cold-weather gloves and ski pants. Sports enthusiasts are still drawn to down jackets for their lightweight comfort.

In terms of pure insulation power, fur is also difficult to beat. However, the material's disadvantages are numerous: it is expensive, heavy and controversial.

Over the next few years, several new technologies are expected in the cold-weather apparel market. One of the latest is recycled fibres, which manufacturers hope will prove popular with environment-conscious consumers. 3M plans to introduce recycled Thinsulate next year and recycled fleece is already available.

Scientists have set their sights on developing bizarre-sounding miracle fabrics. "Technology today is based on passive fabrics, which work by trapping heat generated by the body," says Aneja. "We are working on fabrics that would harness energy from outside the body, such as visible light and wind. We are trying to modify the polymer from which the yarn is made so that it absorbs this energy."

Aneja is also researching materials that adjust to temperature needs. "We would like to have a material that warms you when you are cold, cools you when you are hot." The most promising polymers in this area are elastic, engineered proteins, which adjust to temperatures by creating a temperature-sensitive biosystem.

Cold-weather clothing has already undergone a significant overhaul in recent years and more technological change is on the way. The day may soon arrive when ski holiday suitcases contain wind energy-harnessing jackets and protein long-johns.

The perfect pair of jeans

The search for the perfect-fitting pair of jeans can turn into a lifetime crusade for some women, but a new software program is aiming to change that. A Boston-based company called Custom Clothing Technology has developed a way of making custom-fitting jeans by computer. The technology is being used in US stores this month to measure customers for Levi Strauss jeans.

Sales assistants measure women's waist, hips, rise – the distance from the front waistband, between the legs and up to the back waistband – and inside leg. The measurements are entered into a computer which identifies a prototype jean providing the closest match. Each participating store will be stocked with hundreds of prototypes.

The customer tries on the prototype and after final adjustments the sales person sends the information by modem to the company's Tennessee factory. A computerised cutter puts out the pieces, which are then sewn together.

Three weeks later, the customer can pick up the jeans at the store, or have them mailed. The jeans cost about $10 (£6) above the normal price and will initially be available only at four stores.

But, by the end of January, Levi Strauss plans to offer the product in seven other stores. Because sales people have to be trained in how to use the program, however, it may take some time before the product is widely available.

Sung Park, an ex-IBM software programmer and president of Custom Clothing Technology, says he developed the program after spending time in Hong Kong, where he could get a suit tailored in a day.

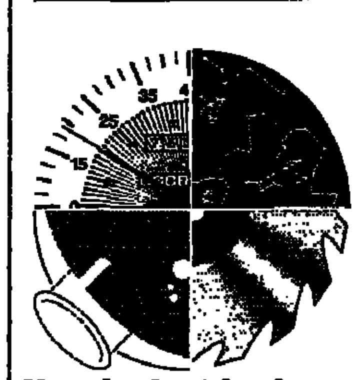
"I thought, wouldn't it be great if this were available to the mass market in the US?," says Park. "And then I started wondering what the best applications would be." Park says he asked his female flatmates which piece of clothing it was most difficult to find a good fit in, and the answer was unanimous: jeans.

Park has an exclusive contract with Levi Strauss for tailored jeans, but he is talking to other companies about custom-made bathing suits and men's suits.

Levi Strauss says it will expand the product to men's jeans and other styles for women if the tailoring proves popular.

VG

Worth Watching · Vanessa Houlder



New look at brain abnormalities

Toshiba, the Japanese electronics company, has developed an imaging technique which could make it easier for doctors to examine brain function abnormalities, such as epilepsy.

The technique is a form of magnetic resonance imaging, which monitors the electromagnetic radiation given off by excited nuclei in a magnetic field.

The "double echo" MRI method produces separate images of the neurons and adjacent blood flows by relying on differences in the fall-off characteristics of their wave signals. Toshiba believes the accuracy and speed of the technique will assist doctors with diagnosis, presurgical mapping and the exploration of complex brain functions.

Toshiba Corporation: Japan, tel 033457 2105; fax 033456 4776.

Video connects Internet novices

Cyberia, the London café where customers get hitched up to the Internet, has produced a video to smooth the learning curve for novices of the net.

Internet: The Cyberian Connection, which was produced with Purple Training, is a step-by-step guide to Internet services and how to get connected.

Purple Training: UK, tel 0181 742 0607; fax 0181 994 3650.

Golf club drives at greater accuracy

An oversized, remodelled golf club could be the answer for golf enthusiasts who yearn for greater accuracy and distance.

Spalding, a US equipment manufacturer, has designed a driver in which 20 per cent of the weight of the head has been redistributed to its perimeter and sole. The head's higher moment of inertia and lower centre of gravity gives the ball less spin, allowing it to go further. The weight shift also makes the driver more stable, helping the golfer attain greater accuracy.

The Top-Flite Magna Heat Driver, which is designed for mid-to-high handicap golfers, will go on sale at the beginning of next year at around £99.

Spalding Sports: UK, tel 0954 781 672; fax 0954 782 496.

Bagtag keeps track of airport luggage

An identification system that was originally devised for sheep-tagging is being tested in airport baggage handling systems.

Magellan Technology, an Australian company, has developed a radio frequency-based device that recognises encoded tags. Unlike previous radio frequency-based systems, it can simultaneously identify a number of tags and it can operate with the tags in any position.

The developers say the system, known as Bagtag, is nearly 100 per cent accurate.

Magellan: Australia, tel 09 455 2231.

Slow speed town traffic transmitted

Measuring the speed of traffic flows in towns can be difficult because vehicles are constantly stopping and starting.

Trafficmaster, a company that provides live traffic information to motorists, believes it has overcome this problem by devising a system that uses video cameras and number plate recognition software to track the speed at which traffic moves through two points on the road.

A video camera photographs the number plates of a batch of cars, which are digitised and transmitted by radio signal to a site further down the road, where another camera photographs the targeted number plates.

Trafficmaster plans to install the equipment early next year on two London routes. The company will destroy the sightings data after its use to protect drivers' privacy.

Trafficmaster: UK, tel 01908 249800; fax 01908 200330.

THE PROPERTY MARKET

Docklands dreams again

Simon London on the revival of optimism in east London

London Docklands is a barometer of the wider mood of the property market. Grand plans for the regeneration of the area to the east of the City of London – including the massive Canary Wharf development – were the products of economic over-optimism.

The sudden downturn in the property market left docklands stranded, with its unsettling mix of very old buildings, very new buildings and derelict sites.

Now the mood is one of cautious optimism. Attention is slowly turning from damage limitation to future expansion.

This is most apparent in residential housing. The stock of empty homes in docklands has been sold and a minor development boom is under way.

In business space, the overbuilding of the late 1980s will take longer to sort out. Out of a total 13m sq ft of office space in docklands, about 4.5m sq ft is still vacant – an occupancy rate of just 65 per cent.

Yet the overhang of space is steadily being eroded. More than 1m sq ft of offices has been let this year, up from 800,000 sq ft in 1993, 332,000 sq ft in 1992 and 192,000 sq ft in 1991.

Even Canary Wharf, the grandiose monument to the last development boom, is on the way to being fully let. If negotiations with investment bank Barclays de Zoete Wedd over 500,000 sq ft are successfully concluded, less than 1m sq ft of the 4.5m sq ft development will remain unoccupied.

Mr Mike Bignell, head of property development for the London Docklands Development Corporation, said that there was potential for another 10m sq ft of office space in docklands, including further phases of Canary Wharf.

While the immediate priority must be to fill vacant space, the next phases of development are already on the horizon as distant possibilities.

Survey evidence is certainly encouraging for docklands. A poll of central London office occupiers by Jones Lang Wootton, the surveyors, found that many companies were again thinking about moving out of the City and West End, after a lull during the depths of recession.

The motivation was not outright cost, but the desire to rationalise sites and bring operations under one roof. Favoured destinations were areas within the immediate orbit of central London – including docklands – which could offer modern space at prices a shade cheaper than the City or West End.

Against this background, it is not beyond the realms of possibility that Canary Wharf and the LDDC will be dusting off development plans within a couple of years.

Sir Peter Levene, chairman and chief executive of Canary Wharf for the past 18 months, recognises that the nature of his task is turning from crisis management to long-term development.

With piecemeal lettings taking place all the time – this week the Personal Investment Authority confirmed that it is sub-letting one floor of the Canada Square tower – the existing buildings are achieving critical mass in terms of tenants.

"The Jubilee Line extension will be with us by 1998, cutting journey times into the West End to 15 minutes and linking us with Waterloo and London Bridge stations. That will fundamentally change perceptions of Canary Wharf and, in planning terms, is not far away," commented Sir Peter.

The original design for Canary Wharf envisaged 12m sq ft of office space. The foundations have already been dug for two further buildings – numbers 17 and 20 Columbus Courtyard – amounting to 340,000 sq ft.

Canary Wharf is also in negotiations which could lead to the development of its remaining river frontage. The area is currently a temporary car park, but permission has been granted for 1m sq ft of mixed use residential and office buildings.

With so much empty space to let, at present the LDDC is confining its development activity to non-office schemes. But that does not imply any lack of activity.

In the mainly derelict Royal Docks area at the eastern extremity of docklands, there are plans for an exhibition centre the size of Earls Court and Olympia combined, an urban village, a university, science park, commerce park and retail development.

Plans for the exhibition centre are the most advanced, with the LDDC set to announce its favoured development partner within the next few weeks. Work is scheduled to start on the 85-acre site before the end of next year.

Just over the water at West Silvertown, an urban village of up to 1,500 homes will be built by Wimpey, the housebuilder. Work should begin as soon as the planning process – controlled by the LDDC rather than the local authority – has been completed.

While the Royal Docks development programme will not add directly to the stock of office space, it could give docklands critical mass in other respects which would add to its attractions as a business location.

So what will be the effect on the City and West End if Canary Wharf and the Isle of Dogs do – finally – establish themselves as London's third business district?

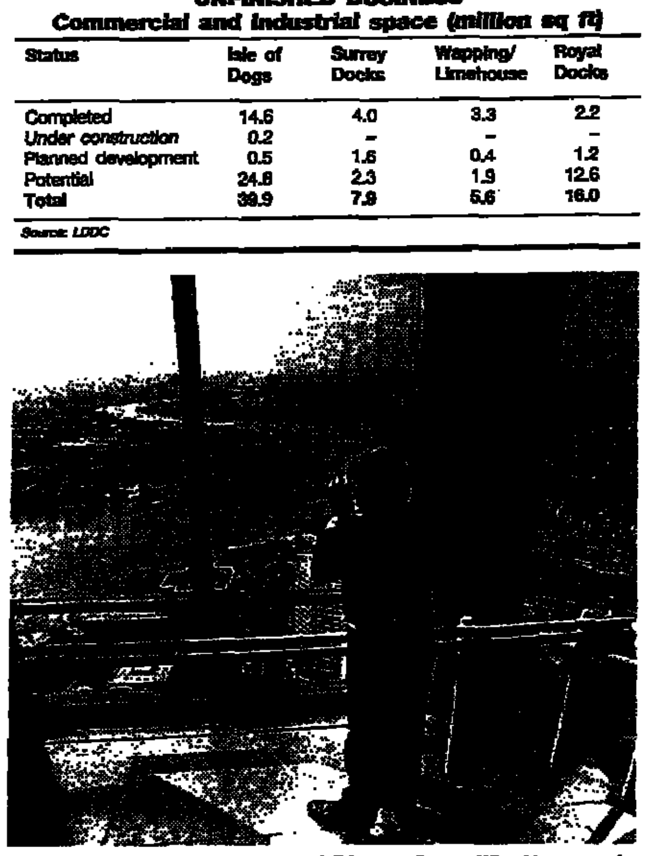
Sir Peter Levene recognises that rents at Canary Wharf will have to remain below those charged by the best buildings in core City locations. While the differential will narrow as Canary Wharf gains credibility and improved infrastructure, the availability of cheaper space to the east of the City and West End will present real competition, especially for pre-let developments.

"It is not safe to assume that docklands is not real competition and that there will be no further development," said Mr David Price, head of central London agency for Hillier Parker, the surveyors. "Paddington, King's Cross or Spitafields would be preferred locations for some occupiers but not for all. And they cannot turn the key on new development as fast as Canary Wharf."

UNFINISHED BUSINESS
Commercial and industrial space (million sq ft)

Status	Isle of Dogs	Surrey Docks	Wapping/ Limehouse	Royal Docks
Completed	14.6	4.0	3.3	2.2
Under construction	0.2	-	-	-
Planned development	0.5	1.6	0.4	1.2
Potential	24.6	2.3	1.9	12.6
Total	39.9	7.9	5.6	16.0

Source: LDDC



Office construction may one day be visible from Canary Wharf tower again

PEOPLE

Aitken-Davies signals Railtrack's route

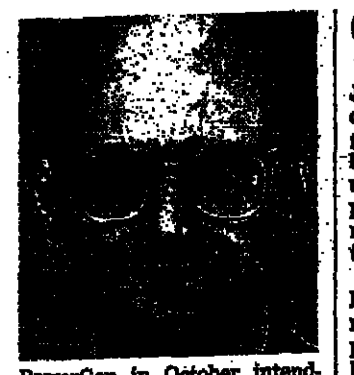
The government has picked Richard Aitken-Davies to be director of Railtrack's privatisation unit. It hopes to float the company, which has taken over British Rail's tracks, signalling and stations, in the first three months of 1996 but many questions remain to be answered before the market can hazard its value.

Crucially, the level of charges it can levy on the train operating companies has to obtain the Rail Regulator's approval early next year.

Aitken-Davies, 45, the man who will be most closely responsible for steering Railtrack to a successful flotation, was formerly director of corporate finance at PowerGen. He was financial controller at the state-owned CEGB before it was broken up into PowerGen and three other companies in 1989. He helped create PowerGen's capital structure and orchestrate its flotation. He believes his experience with PowerGen will stand him in good stead at Railtrack. "They are both new companies formed from much larger organisations with no track record of their own," he says. "We will have to go out and persuade the City to invest."

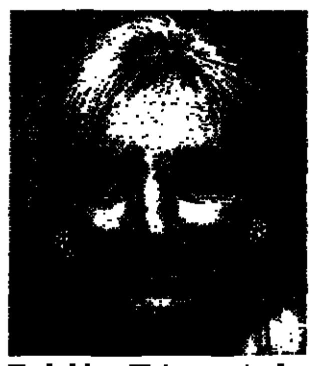
Aitken-Davies can claim practical, daily experience of the railway, commuting from Raynes Park in south west London to Waterloo. He is a regular user of BR's InterCity services.

He stepped down from PowerGen in October intending to take a break from business but the government's decision to bring forward Railtrack's privatisation required a quick decision. He will join the company full-time in January.



Aitken-Davies, a former councillor in the London Borough of Merton, devotes some of his free time to acting as an external examiner in business studies at Luton University. *Charles Batchelor*

Non-executive directors



Yorkshire Water yesterday appointed two non-executive directors less than three months after rejecting smaller shareholders' attempts to elect a similar candidate to the board.

Yorkshire has appointed Patricia Marsh, 48, (above) and Colin Cooke, 54, to replace retiring directors, Tom Jackson and David Cramb.

Marsh, former managing director of Ace Coin Equipment, one of the UK's largest distributors and manufacturers of electronic interactive machines for the leisure industry, is a former member of the customer services committee for the water industry regulator's Central region. Her appointment follows the resistance of Yorkshire management and institutional shareholders to the nomination of Diana Scott, former chairman of the Ofwat Yorkshire customer services committee.

At the time, Yorkshire's board argued that Scott, who had the support of a substantial number of smaller shareholders, did not have the relevant business experience.

Yorkshire yesterday sought to stress Marsh's business qualifications, citing her positions as non-executive director at Yorkshire-based Rosebys, the household and soft furnishings retailer, and chairman of the Birmingham Children's Hospital.

Cooke, who will join the board in the spring, is chairman of industrial groups Triplex Lloyd and Fenner, and a non-executive of Ash & Lacy and British Dredging. *Peggy Hollinger*

■ British Biotech has replaced Brian Richards as non-executive chairman with John Raisman, former chairman and chief executive of Shell UK.

The change came about at Richards' suggestion, says Keith McCullagh, chief executive of British Biotech.

"Brian is an R&D oriented man. Board discussions are increasingly financial and commercial. As we move towards commercialisation, it is a fitting change," he says.

Raisman, 65, retired from Shell in 1985 after 30 years with the company; he is a non-executive director of Lloyds Bank, and formerly on the board of Glaxo.

Richards, 62, a co-founder of the company in 1986, remains on the board. *Daniel Green*

In the pipe-line at Hardy

John Walmsley, the former finance director at Enterprise Oil, the UK's largest independent oil explorer, has been appointed chief executive of Hardy Oil and Gas as from January 1.

He will succeed Peter Elwes, who will become deputy chairman with a full-time executive role. Elwes, who was Enterprise Oil's first chief executive, interviewed Walmsley for his first job at Enterprise in 1984. The two men say their long relationship should ensure a smooth transition.

Elwes has been head of Hardy since 1989, when the company was demerged from Trafalgar House. He is due to retire in 1996. Walmsley was a director of Enterprise Oil from 1984 to 1993 and departed several months before Enterprise made its abortive bid for fellow explorer Lasmo.

His appointment at Hardy ends almost a year of industry speculation about his future.

Walmsley says there is unlikely to be any big shift in strategy at Hardy; he intends to follow the philosophy he developed at Enterprise of focusing on core areas. In recent years the company has used the considerable cash generated by its extensive North American operations to fund longer-term projects in the UK sector of the North Sea. *Robert Corzine*

Carrying on

John Toyne, a transport consultant, has been appointed group managing director of United Carriers which has upset investors by making two profits warnings in the nine months since it was floated on the stock market.

Toyne, 51, replaces Michael Howe who was sacked last month following the second profit warning. The first setback was blamed on too few parcels; the second on too many. The shares – floated at 153p – were unchanged at 83p yesterday. Alan Binks, who lost his job as chairman but retained the title of chief executive, admitted at the time that the return to the market had been "a right mess".

Toyne joined Imperial Group in 1965 and has spent over 20 years in production and personnel management. As chief executive of Lowfield, a grocery distribution business, he led the management buy-out from Hanson in 1988. Lowfield was acquired by Tibbett & Britten in 1989 and Toyne sat on the Tibbett board until last year. Most recently he has been operating as a consultant in the transport sector and advising on a number of management buy-outs. *William Hall*

■ David Codd, chief legal adviser, John Darnley, general manager sales and marketing, and Janet Stoner, general manager producing operations, have been appointed to the board of TEXACO Ltd.

■ Alfred Hepden, formerly southern region construction director with Arlington Project Management, is returning to Project Management International, part of BRITISH AEROSPACE, as md.

■ John Hurcom is promoted to deputy md and Stephen Walker to engineering director of THAMES WATER Utilities.

■ Bill Kirkwood, formerly sales & marketing director for Thomas Cook Travel Management Europe, has been appointed md of Air 2000, part of FIRST CHOICE HOLIDAYS.

■ Diane George, formerly md, marketing and strategic planning, is appointed deputy chief executive, and Alan Hale, md of group operations, and Graham Collyer, technical director, of SETON HEALTHCARE GROUP.

■ Ann Nussey, formerly group director of IT at Redland, has been appointed director of IT at LLOYD'S REGISTER.

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ARTS

Let's keep Ashton's flame burning

Clement Crisp argues that more of the great choreographer's work should be in the repertoire

Remembering Frederick Ashton's ballets – and Covent Garden's second programme in tribute to him is called *Ashton Remembered* – is too nostalgic for my taste. What we must see is Ashton, the man we know from his choreographies, alive on stage through scrupulous performance. When his works are well performed, audiences understand the essential Ashton, what he gave the Royal Ballet, what he wanted classical dancing to look like. Not memories, but deeds.

The matter of preserving his work and his style (which was the man), seems to me urgent. The Royal Ballet does not maintain a corpus of Ashton pieces in repertory – a fault owed to an inadequate allocation of performances – and I sense that schooling in Ashtonian nuance, vital matters of posture, precision and clarity of execution, is not always careful. The Royal Ballet no longer speaks Ashton's poetry as well as it does Forsythe's rap.

There sometimes seems a prettiness, an almost fatal charm, in Ashton ballets, as with the fairies in *The Dream* or *Cinderella*, or the skaters in *Les Patineurs*. But the prettiness is not over-sweet, and sustaining every charming moment is a master's craft. (The scherzo in *The Dream* is a miracle of composition matching Mendelssohn's airy genius). Ashton should be second nature to our dancers, though recent disastrous casting in *Symphonic Variations*, with performers so physically unsympathetic to its style that they dismantled the piece, show how easy it is to destroy his work.

The good things about the *Ashton Remembered* bill, as I saw it at the week's end, is that *The Dream* has been well revived, and *Facade* has, at last, a Dago worth watching. *The Dream* was at its gossamer best. Bruce Sansom is a commanding Oberon, classically sure. Peter Abbeglen is a delightful, because innocent, Bottom. The fairy legions are quick-footed, deliciously melting in pose. The lovers are freshly funny, and touching. Viviana Durante can spin through Titania's steps with the best, but the role lacks radiance and that wilful sensuality to illuminate the last duet. Tetsuya Kumakawa is a technically astonishing Puck – the role has never been more ebulliently danced – but his interpretation is a Kumakawa flag day. His bravura is destructive because too emphatic.

'The Royal Ballet no longer speaks Ashton's poetry as well as it does Forsythe's rap'

Ashtonian fragments make up the centre of the programme. Two pieces have been rescued from oblivion: the "Air" pas de deux from *Homage to the Queen*, which was the ballet's tribute in Coronation year; and the *Raymonda* duet made in 1962 for Beriosova and Donald MacLeary. "Air" is a lovely thing, despite its clattering Malcolm Arnold score. After all the years, memories came back of Fonteyn and Somes effortless and serene in it. It looked less than serene with the first appearance of Deborah Bull and William Trevitt, but it will handsomely repay their further study.

Raymonda brought Darcey Bussell to the stage after a long period of injury. She has the expansive grace and grandeur that the dance needs – if not yet all the stamina – and it was a delight to see her again, though if the piece is to persist in repertory the ballerina's pink costume had better be sent to the nearest Oxfam shop, and something less cute be confected. Zoltan Solymosi was Bussell's cavalier – and rather cavalier in manner.

The luscious *Thais* duet – Massenet's swooning violin; an extremely high sugar-content; the veiled vision of an Alexandrian courtesan; one lingering kiss: can life offer more? – was done to a turn by Viviana Durante and Stuart Cassidy. Divinest patchouli-scented hokum. And, unnecessarily, a tiny Ashtonian sneeze – *La chatte métamorphosee en femme* – was also remembered. It does nothing for Ashton's reputation, and not enough for its interpreter, Maria Galeazzi.

The closing *Facade* was memorably led by Stephen Jefferies as the Dago. It was a role made wildly funny by Robert Helpmann, compounded of sinuous wit, brilliantine, diamond rings and devastated glances. No-one, until Jefferies, has come anywhere near Helpmann's satiric skill. Jefferies plays it deadpan, and wonderfully so, and misses not one comic trick. He is so good that the *Noche Espanol*, in which Helpmann used to saunter about in a maddened pin-strip suit, should be restored to the ballet for him. The revival was, otherwise, decent – though the Popular Song could be more bored and oh-so-slightly more relaxed. Ashton was properly remembered. Long may the company remember its duty to him.

Ashton Remembered: Covent Garden on December 17 (mat & eve).

Theatre/**Alastair Macaulay**

'Threepenny Opera' updated

When a theatrical work we know is updated and relocated to the place we live in, we expect a certain gain in immediacy, a certain thrill of recognition, a certain now-ness. The Donmar Warehouse's new staging of Bertolt Brecht's and Kurt Weill's 1928 bitter satire *The Threepenny Opera* (*Der Dreigroschenoper*) has been set by its director, Phyllida Lloyd, in London, and (more or less) in the present day. During the overture, video-screens show us Mack the Knife (Tom Hollander) fraternising with Trevor Nunn; later on, they show us Anneka Rice.

Mr Peachum trains beggars in the latest techniques of begging. Jeremy Sams's ultra-now new lyrics speak of ICI executives who take coke, Tory ministers who like crumpet, Torvill and Dean, and so on. "Now remember that fire in Hounslow? – 20 Asians and the cat?" – sings Jenny in "The Flick-Knife Song" about Mack the K. – "While they're raking through the embers,/ There's a flick-knife. Fancy that." The main element of fiction is that Prince William is about to be crowned William V. Clever stuff.

Too bad, then, that this *Threepenny Opera* feels remote, artificial, implausible. One problem is that Lloyd has not managed to give her team of singing actors any one performing style. Tara Hugo (as Jenny, the whore who betrays Mack) is mordantly involved; Simon Dormandy (as Tiger Brown, chief of police) is ironically hammy; Beverley Klein (Mrs Peachum) is vividly cynical; and so on. Oh yes, and Polly here is Irish, her parents Scottish and London-Jewish, her two female rivals white American and black English.

Another problem is that *The Threepenny Opera* is an anti-opera whose balance of words and music needs to be very finely judged. I guess that this production has been planned as a sequel to the Donmar Warehouse's very successful production of *Cabaret* this time last year. (*Cabaret* carefully evoked the German mid-war world that had produced *The Threepenny Opera*.)

The Warehouse is a marvellous place for music theatre, where songs can be projected without amplification. Here, Weill's accompaniments have been well directed by Gary Yershon. (Some songs are miked, but okay – this is to make a dramatic point.)

But in general this is an evening that forces Brecht noisily down poor Weill's throat. As Mack, Hollander shouts his songs like a punk rock star. He is a tight, light frog-like baritone who runs out of voice at either extreme. His biggest melodic line, the seemingly romantic arch of "For love will flourish or fade away", he sings twice. The first time it is a shout, the second an unimpressive falsetto.

By contrast, Klein delivers Mrs Peachum's music with a buzz-saw vibrato – the kind of old-style vocal artifice that surely this kind of music theatre was never about – even though her voice has a real training that certainly delivers all her vocal lines firmly in place. It is Hugo whose style of singing best combines urgent diction and musical phrasing; and hers is by far the evening's finest performance.

It is hard to believe in little Hollander as "the last real man in London". He plays the role as a coolly vicious spiv, with a blaring Londoner accent (sounds like Griff Rhys-Jones), and he plays it with unhesitating force. But he lacks sexual allure and, more important, dimension of spirit. Why should we spend two hours and three-quarters attending to a tale about this minor crook?

Sharon Small and Tom Hollander as Polly and Mack — Alastair Muir

Sharon Small, as Polly, is sometimes too stagey and vocally uneven, but hers is a talented, if unfocused, performance. As a Scottish Mr Peachum, Tom Mannion is loud and dull. Sams's lyrics are so forceful that they contribute to the Brecht-heavy feeling of the evening. But they are almost all so accomplished and so right-on that they are one of the few components of this uninvolving production that I would like to save for another staging of this tricky work.

At the Donmar Warehouse, WC2

Music in New York/**Andrew Clark**

The Immortal Hour

Britain's future may lie in Europe, but its cultural heritage still means far more to Americans than to anyone on the other side of the English Channel. How else do you explain the enthusiasm with which English music is championed in the US?

Frank Corsaro and Leonard Slatkin have both gone out of their way to introduce unusual repertoire to New York. Corsaro, known this side of the Atlantic for his stagings at Glyndebourne, has a penchant for neglected British operas. Vaughan Williams's *Hugh the Drover* and Delius's *Fennimore and Gerda* are among his recent credits in the US. He has now produced Rutland Boughton's *The Immortal Hour* at the Juilliard Opera Center, of which he is artistic director.

It would be wrong to suggest the production was a revelation, but it made the best possible case for an opera which – despite the praise once heaped on it by Elgar and Bax – today seems irredeemably dated in language and musical idiom.

Boughton (1878-1960) and his Glastonbury Festival, where *The Immortal Hour* was premiered in 1914, are among the more eccentric footnotes to English musical history. Boughton propagated Celtic mythology, socialism and communal art. *The Immortal Hour* was never intended for mass consumption – and yet a cult of popularity developed around it in the 1920s, when it had more than 500 performances in London. The last major revival, at Sadler's Wells in 1953, was a flop.

With its simple, folk-song style, *The Immortal Hour* taps the mystery and romance of Celtic legend. That is its appeal. The music amounts to little more than a handful of undemanding, poorly integrated themes, one of which – the *a capella* chorus "How beautiful they are" – is sometimes heard independently.

The story, set in a forest, concerns a king who falls in love with the fairy princess Etain. He dies after she abandons him for Midir, Prince of the Immortals. There are echoes of *Rusalka*, *Lohengrin*, *Pelléas*. *New Grove* describes it as a "poignant depiction of love's inevitable ending in loss". Edward Dent said it was "one of those rare operas to which an inward surrender has to be made".

I failed to make that crucial step, but I could not resist the mesmeric beauty of the Juilliard production, which tapped the otherworldly, dream-like quality of the work. Corsaro focused on essentials – poised acting, visual atmosphere – and paced the drama with unerring skill, using the auditorium for theatrical processions and for those distant choruses that are so peculiar to this piece. Stephan Olson's decor consisted of little more than a raked platform. John Gleason's lighting was exquisite, exploiting the shady depths of the stage and throwing into relief the soft colours of Constance Hoffman's medieval costumes.

Although never intended for mass consumption, Boughton's opera developed a cult following

The cast included one outstanding talent – Jon Villars as Midir. His tenor has a big, heroic quality which projects effortlessly, while retaining a lyrical core. The technique is good. With his giant frame, Villars seems destined for a major career. Peggy Kriha's Etain was properly ethereal, and there were effective contributions from Brian Nickel as Eochaidh, the tragic king, and Jamie Offenbach as Dalua, the sinister spirit who manipulates the drama. Randall Behr conducted the student orchestra with clear commitment.

Slatkin's anglophile sympathies need no introduction here, but it is reassuring to note that he does not reserve them for British audiences. US radio stations regularly play his Vaughan Williams recordings, and his Saint Louis orchestra is a fearless interpreter of contemporary scores, including Peter Maxwell Davies's *Worldes Blis* and Nicholas Maw's *Odyssey*.

Due to an unfortunate programme clash I was forced to choose between Graham Vick's new Shostakovich production at the Met and Slatkin's performance of *Odyssey* at Carnegie Hall. I chose the Met and was amply rewarded – but it is worth recording the reaction to Maw's orchestral epic, which was receiving its New York premiere. The hall was well-filled, but there was a steady exodus throughout the two-hour performance. The New York Times critic said he was jealous of those who left, and characterised the score as "a mighty parliament with no majority". Newsday described it as an ungainly beast which "only a mother could love".

That probably says more about American conservatism than the inherent merits of Maw's music, which is scarcely calculated to appeal to minimalists. But there was unanimous praise for Slatkin and his orchestra, whom I heard the following evening in Mahler's Third Symphony. Carnegie Hall is halfway through a two-year Mahler cycle. Slatkin's clean, efficient performance may have gone down well in Saint Louis, but it did not have the personality which the occasion demanded in New York. The drama of the first movement was matter-of-fact; the finale lacked depth and expression. Only the mezzo soloist, Nancy Maultsby, seemed truly inspired.

Delicious French bonbons at the Wigmore Hall

The Nash Ensemble has a well-established association with French music of the 19th and 20th centuries. The group is celebrating its 30th anniversary with six concerts of French music from Saint-Saëns to Poulenc. Saturday night's programme was a delicious selection of chocolates.

The choice for gourmands would probably have been Quatre poèmes Hindous by Maurice Delage, one of a small number of Parisian composers you could call exquisite. Delage's settings are exotic, sharply imagined evocations of India, scored for voice with a lovingly chosen ensemble of pairs of flutes, clarinets, an oboe, harp and string quartet. The ample, weighty vocal quality of the soprano Françoise Pollet seemed well-suited to these languorous yet colourful pieces.

It was less so in Fauré's song cycle *La Bonne Chanson*, in which a lighter touch was needed. The version was Fauré's own amplified one which adds a string quintet to the piano – a patchy affair: Fauré leaves out the piano for long periods, then suddenly brings it in only to make the strings seem superfluous. Fauré himself preferred the songs without the strings.

An arrangement of Ravel's Sonatine seemed a second-best substitute for the piano original, too. The Nash's harpist, Skaila Kanga, had adapted Carlos Salzedo's arrangement for flute, cello and harp by replacing the cello with a viola, spreading the interest more evenly. It fell short of redeeming a lost cause, for all the artistry of Skaila Kanga, flautist Philip Davies and viola-player Roger Chase.

After two slightly sullied masterpieces, the evening ended with one in its pristine form. Fauré's second Piano Quintet, completed in 1921, is characteristic of the austerely searching quality of his later years. In each movement the streamlined consistency of texture is a cover for provocative, unexpected turns of melody and harmony. The First movement and slow third movement somehow convey serenity and anguish at the same time. The scherzo slithers by. The finale is surprisingly brief, as if impatient for its radiant conclusion. A fascinating work, beautifully played.

On Tuesday evening Françoise Pollet returned to the Wigmore Hall in a recital of French songs with the baritone François Le Roux and pianist Roger Vignoles. Le Roux was warm but rather tremulous – fine in an unpitifully fluttering song by Chausson (*Les Papillons*) but inclined to chop up Fauré's *Le chanson du Pêcheur* and Chausson's baleful *La caravane*.

Pollet's voice production was blustery, too, though she sang Falla's *Séguidille* with great gusto. The singers joined in Duparc's passionate duet *La fuite*, adding Bizet's breezier setting of the same words as an encore. Oddly they were most impressive when really stretched by the grand, arched phrases of Berlioz's *Les nuits d'été*. Pollet found her best form in the tragic, statuesque phrases of *Absence*. The role allotted Vignoles was to suggest the shimmer of the orchestral version with alarmingly few notes: it was remarkable how evocative his contribution seemed.

Adrian Jack

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERTS
Het Concertgebouw Tel: (020) 671 8345
● Philippe Herreweghe: with the Freiberger Barockorchestra and the Collegium Vocale Gent conducts Bach at 8.15 pm; Dec 20, 22

BERLIN

CONCERTS
Philharmonie Tel: (030) 2548 8132
● Berlin Philharmonic Orchestra: conducted by Claudio Abbado and with soloist Maurizio Pollini plays Brahms and Mussorgsky at 8 pm; Dec 16, 19, 20, 21, 30, 31 (5.15 pm)
OPERA/BALLET
Deutsche Oper Tel: (030) 3 41 92 49
● Siegfried: by Wagner. Conductor Horst Stein, production by Götz Friedrich at 5.30 pm; Dec 27
Staatsoper Unter den Linden Tel: (030) 2 00 4762
● Die Verurteilung des Lukullus: by Paul Dessau. Conductor Hirsch, production by Berghaus at 8 pm; Dec 18 (3 pm)
● Die Zauberflöte: by Mozart. Conductor Daniel Barenboim, production by August Everding at 7 pm; Dec 20, 23, 25, 28
● Dornröschen: by Tchaikovsky. Conducted by Stolze, choreographed by Nureyev at 7 pm; Dec 26, 27
● La Traviata: by Verdi. Conducted by Rizzi, production by Kirst. In Italian at 7 pm; Dec 17

BRUSSELS

CONCERTS
Philharmonique de Bruxelles Tel: (02) 507 84 34
● András Schiff: pianist, plays Bach, Reger, Handel and Brahms at 8 pm; Dec 19
● Royal Concertgebouw Orchestra: with pianist Evgeny Kissin and conducted by Sir Georg Solti, plays Beethoven, Bartok and Kodály at 8 pm; Dec 17

LONDON

CONCERTS
Barbican Tel: (071) 638 8891
● LSO New Year Viennese Concerts: conducted by John Georgiadis, the music of Strauss in this traditional celebration of the New Year at 7.30 pm; Dec 31
● Royal Philharmonic Orchestra: Christmas concert with conductor Owain Arwel Hughes at 7.30 pm; Dec 20, 26
OPERA/BALLET
English National Opera Tel: (071) 632 8300
● Figaro's Wedding: in house debut for conductor Derrick Inouye at 7 pm; Dec 17
● Khovanshchina: new production of Mussorgsky's opera. Director Francesca Zambello at 6.30 pm; Dec 16
Festival Hall Tel: (071) 928 8800
● The Nutcracker: by Tchaikovsky. English National Ballet and its Orchestra choreographed by Ben Stevenson at 7.30 pm; from Dec 21 to Jan 2 (Not Sun)
Royal Opera House Tel: (071 340 4000)
● Ashton Remembered: celebration of the Royal Ballet founder choreographer Fredrick Ashton. Includes pieces by Mendelssohn, Offenbach, Massenet and Walton at 7.30 pm; Dec 17 (2 pm)
● Cinderella: music by Prokofiev. Created by Fredrick Ashton in 1948, this was the first full-length ballet by an English choreographer at 7.30 pm; Dec 23 (2 pm), 26 (2 pm), 27, 30, 31
● La Traviata: by Verdi. A new production by Richard Eyre. Georg Solti conducts for the first five performances, then Phillipe Auguin. In Italian with English surtitles at 7.30 pm; Dec 16, 19
● The Sleeping Beauty: a new production of Tchaikovsky's ballet. Produced by Anthony Dowell, set designed by Maria Bjornson at 7.30 pm; Dec 20 (2 pm), 21, 22, 28
THEATRE
Barbican Tel: (071) 638 8891
● New England: World premiere of Richard Nelson's new play. No performance 12-15th Dec., otherwise at 7.15 pm; to Dec 29 (Not Sun)
National, Lyttelton Tel: (071) 928 2252
● Out of a House Walked a Man: by Daniil Kharms. A Royal National Theatre and Theatre de Complicite co-production of a collection of musical scenes by the Russian absurdist writer at 7.30 pm; Dec 23, 26, 27
● The Children's Hour: by Lillian Hellman, directed by Howard Davies at 7.30 pm; Dec 16, 17 (2.15 pm), 19, 28, 29 (2.15 pm), 30, 31 (2.15 pm)

MUNICH

GALLERIES
Kunsthalle der Hypo-Kulturstiftung
● Paris-Belle Epoque: An evocation of the period from 1880 to 1910, with paintings, drawings, posters, photographs, glass and furniture; from Dec 16 to Feb 26

NEW YORK

GALLERIES
Whitney Museum
● Franz Kline: Black and White 1950-61: major Abstract Expressionist works from the last decade of the artist's life; from Dec 16 to Mar 12
OPERA/BALLET
Metropolitan Tel: (212) 362 6000
● Die Fledermaus: by J. Strauss. Sung in German with English dialogue at 8 pm; Dec 22, 29, 31
● Don Giovanni: by Mozart, sung in Italian at 8 pm; Dec 16, 20, 24 (1.30 pm)
● Madama Butterfly: by Puccini at 8 pm; Dec 17, 21, 27, 30
● Peter Grimes: by Britten. English at 8 pm; Dec 19, 23, 28, 31
● Rigoletto: by Verdi at 8 pm; Dec 17
New York State Theater Tel: (212) 870 5570
● The Nutcracker: by Tchaikovsky, performed by the NY City Ballet. Tue-Thu 6pm. Fri 8 pm. Ring for other times and matinees; to Dec 31 (Not Mon)

PARIS

CONCERTS
Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24
● French National Orchestra: Jeffrey Tate conducts Beethoven Symphonies Nos. 2 and 3 at 8 pm; Dec 17
GALLERIES
Louvre Tel: (1) 42 60 39 26
● British Art in French Public Collections: paintings by Gainsborough, Reynolds, Constable, Lawrence and Turner. Closed Tue.; to Dec 19
OPERA/BALLET
Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24
● Casse-noisette: Tchaikovsky's ballet performed by the Kirov ballet company, St. Petersburg at 8.30 pm; Dec 22, 23, 25, 26, 27, 28, 29, 30, 31
● La Fontaine de Bakchisaraï: ballet by the Kirov company, St. Petersburg at 8.30 pm; Dec 20, 21
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● Le Lac des Cygnes: by Tchaikovsky. Choreographed and produced by Rudolf Nureyev. Conducted by Vello Pähn/Ermanno Florio at 7.30 pm; to Dec 31 (Not Sun)

WASHINGTON

CONCERTS
Kennedy Centre Tel: (202) 467 4600
● National Symphony Orchestra: perform Handel's Messiah. With conductor Peter Bay, soprano Janice Chandler and mezzo-soprano Stephanie Blythe at 8.30 pm; Dec 16, 17, 18, 19
● New Year's Eve at the Kennedy Center: Members of the National Symphony Orchestra perform popular tunes and waltzes at 9 pm; Dec 31
GALLERIES
National Gallery Tel:(202) 737 4215
● Italian Renaissance Architecture: Brunelleschi, Sangallo, Michelangelo, the Cathedrals of Florence, Pavia and St. Peter's; from Dec 18 to Mar 19
Sackler Tel: (202) 357 2700
● Paintings from Shiraz: the arts of the Persian book created in the city of Shiraz during the 14th -16th century; from Dec 24 to Sep 24
OPERA/BALLET
Kennedy Centre Tel: (202) 467 4600
● The Nutcracker: music by Tchaikovsky. Presented by the Joffrey Ballet, choreographed by Robert Joffrey. Mats at 2pm otherwise at 8 pm; to Dec 17

ROME

OPERA/BALLET
Teatro Dell' Opera Tel: (06) 481601
● Cronache Italiane: ballet in two parts based on work by Stendhal at 7 pm; Dec 18, 20, 21, 22, 23

TURIN

OPERA/BALLET
Teatro Regio Tel: 011 8815 241
● The Nutcracker: ballet in three parts by Tchaikovsky. Performed by the Kirov company, St Petersburg. Sun mat only at 3 pm; to Dec 18 (Not Mon)

WORLD SERVICE

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Taming the wild beast of derivatives

PERSONAL VIEW

The explosive growth in financial derivatives since the early 1980s has been one of the most profound structural developments in financial markets since the organisation of limited-liability equity markets early last century.

Derivatives – financial instruments that derive their value from that of an underlying asset or index – have added another dimension to business decision-making. Derivative finance has commoditised the risk of price changes in many common financial assets, such as equity, fixed income and foreign exchange.

For example, the risk of losses through exchange rate movements can be separated from the risk of price movements in foreign assets. A stream of variable interest rate payments can be converted into fixed rate payments. The risk of an interest rate rising or falling by more than a set amount can be bought or sold.

A fundamental economic benefit of this development is that it makes it easier to quantify the financial risk in any venture and thereby produces better allocation of resources. However, this happy picture has been marred by the growing realisation that the new industry has burst upon a regulatory, supervisory, accounting and legal stage that is not suited to deal with it.

In particular, the traditional supervisory and regulatory structure for large banks – the key players in derivative finance – is ill-equipped to deal with the problem. The existing focus on periodic examinations of on-balance sheet transactions is inadequate to deal with an environment where the on- and off-balance sheet positions change so fast that even end-of-day positions are no longer sufficient measures of an institution's risk profile.

There is also a fear that markets have become less transparent and more interconnected, that derivative business is unduly concentrated in a small group of dealers (some of the big investment banks and securities firms) and that derivative markets are critically dependent on uninterrupted liquidity in the markets for the underlying assets. These have given rise to concerns that problems in the derivatives markets could deal serious shocks to the financial system.

The regulatory and supervisory response has so far focused on refining capital requirements, improving supervisory oversight and increasing disclosure. Although this approach is a step in the right direction, it does not deal with the basic issue, namely that derivative finance has fundamentally changed the balance between regulators and financial institutions in favour of the latter. Instead, emphasis needs to be put on fostering the growth of a framework for derivative markets that shifts responsibility for the control and management of risk back into the private sector.

Risk would be reduced through the self-regulation imposed by exchanges

One of the most notable institutional features of derivative finance is that it is currently provided by two types of market organisations: the organised futures exchanges and the providers of over-the-counter derivatives such as banks. The OTC operators account for about two-thirds of notional values in outstanding obligations.

What makes this surprising is the similarity between a large proportion of the contracts sold by each type of organisation. The logical step in developing a reliable market framework would be to persuade a large part of the OTC derivative activity to shift into self-regulating clearing houses or exchanges – as has happened in other financial markets.

The major advantage of OTC operations is customisation – the products are tailored for the customer. However, most of the forward exchange and swap contracts involve little such tailoring. It is estimated that 60-70 per cent of outstanding OTC contracts could be handled by standardised contracts on the exchanges.

Many of the leading OTC dealers have taken steps to improve their risk management. However, risk to the financial system is generated by the weaker traders and not the best-managed ones. It would be preferable to reduce the risk through the self-regulation imposed by exchanges, which maximise liquidity by standardisation.

The importance of derivative markets to the stability of the financial system suggests that there is a public interest in increasing their transparency, integrity and liquidity. The playing field should therefore be tilted away from the OTC markets, which escape relatively lightly under the present regulatory structure, to induce migration to organised exchanges. This could be done by increasing capital requirements for banks that take derivative positions, so that they are as costly as positions taken through derivative exchanges.

Finally, the increase in transparency would reduce systemic risk. The high credit ratings of exchanges, their lower transaction costs and higher liquidity would provide additional impetus to sustained growth in demand of derivative products by end-users.

The OTC market would retain its important innovatory function, and offer contracts for which demand is not large enough for exchange trading. But lower trading costs, economies of scale from liquidity and the low systemic risk pushed trading in equities – originally also an OTC operation – on to exchanges. This will also happen for derivatives, and the sooner the better.

Alfred Steinherr

The author is director of financial research, European Investment Bank. With David Folkerts-Landau, he wrote "The Wild Beast of Derivatives: To Be Chained Up, Fenced In, Or Tamed?", which won first prize in the 1994 Amex Bank Review Awards

When the charm wears thin

Robert Peston and Diane Summers explain why Maurice Saatchi has angered some shareholders

Cabinet ministers in Her Majesty's government receive flowers from Maurice Saatchi, paid for by Saatchi & Saatchi, every time they change jobs.

The chairman and founder of Saatchi & Saatchi has made a career – and a personal fortune – out of charming the rich and powerful. Institutions as diverse as the Conservative party, Mars and British Airways place their advertising business with the firm, in part because of the personal relationship between their top people and Mr Saatchi.

However, Mr Saatchi will today have to use all his persuasive powers to prevent the Saatchi board – which contains such corporate notables as Sir Peter Walters, former BP chairman, and Sir Paul Girolami, former Glaxo chairman – from succumbing to shareholder pressure to have him removed.

The company's biggest shareholders, led by Mr David Herro, a 33-year-old fund manager at the Chicago-based Harris Associates, have warned directors that, if Mr Saatchi does not stand down at a board meeting today, they will call an extraordinary meeting to force him out.

Some directors argue that Mr Herro represents only a minority of the group's owners. But it is a substantial minority. Mr Herro's own fund controls *9.8 per cent of Saatchi's equity.* His previous employer, the State of Wisconsin Investment Board, controls 8.5 per cent and is backing his stand.

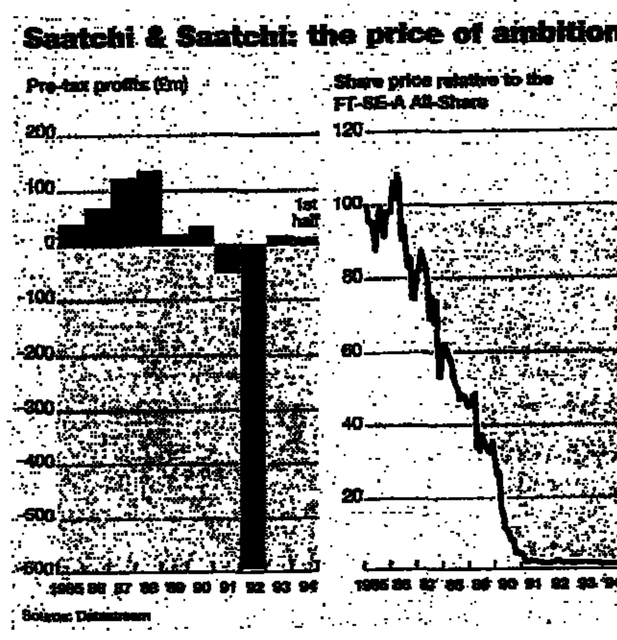
Other US funds with him are General Electric Pension Trust, with 6.5 per cent, Tiger Fund Management, with 2 per cent, and Grantham Mayo, with 3 per cent.

From the UK, unit trust group M&G – owner of 5.25 per cent – last week joined Mr Herro in expressing considerable dissatisfaction with Mr Saatchi.

Mr Herro says that a further substantial shareholder has said it can be counted alongside the dissidents. He believes that more than 40 per cent of the group's investors are committed to ousting Mr Saatchi, and that a formal poll would see the odds heavily stacked against his survival.

Carrying out such a poll, during the seven weeks before an extraordinary meeting could be held, would do great damage to the company – and to morale – in a people business. For this reason, Mr Herro is convinced that the board will "do the right thing".

Saatchi & Saatchi: the price of ambition



Source: Datastream

Maurice Saatchi, chairman

Shareholders' ire has been aroused by several factors. For *10 years after the company* came to the stock market in 1975, investors who backed Mr Saatchi and his brother made a lot of money. However, the shares have fallen 98 per cent against the market in the nine years since he stepped up from chief executive to chairman.

His huge ambition – whose extreme manifestation was his never-consummated plan in 1987 to buy Midland Bank and Hill Samuel merchant bank – was mostly to blame.

Mr Saatchi was not content with being just an advertiser, albeit the world's biggest one for a brief period after the 1986 acquisition of the US Ted Bates agency. In a shopaholic's spending spree, Saatchi bought management consultancy groups, public relations firms and a range of marketing businesses, on the bogus theory that companies would want to purchase all their media and consultancy requirements from a single purveyor.

To finance this expansion, he used the latest financial devices, including issuing bonds committing the company to a substantial deferred cash payment. The consequence was a near-disastrous postponement of the true cash *cost of these acquisitions* to the turn of the decade – or the middle of possibly the worst ever advertising recession.

The company escaped collapse only after a painful and complicated financial reconstruction, which involved raising new money and reorganising the balance sheet, in 1991.

The group also gained a down-to-earth chief executive, Mr Charles Scott, who could control costs while Mr Saatchi concentrated on playing the elder statesman, exploiting his legendary corporate contacts to win new business.

That was the theory until the end of last year, when the Saatchi board took two actions that infuriated Mr Saatchi, according to his colleagues. On Mr Scott's advice, the board agreed that the chairman and holding company staff should vacate their stylish but expensive Mayfair head office – saving more than £1m a year – to move in with the Saatchi & Saatchi advertising subsidiary in London's Fitzrovia.

It was also decided that Mr Saatchi's enigmatic brother Charles – the much vaunted "creative" talent of the siblings – should leave the board.

Soon after that, a series of stories began appearing in newspapers about an alleged feud between Mr Saatchi and Mr Scott, with Mr Saatchi reported to believe that the "bean counter" Scott had "not delivered".

It later emerged that Mr Saatchi had hired a personal public relations adviser, Mr David Burnside, the pugnacious former public relations head of British Airways.

Mr Herro, a supporter of Mr Scott, was outraged. "My concern about Maurice started with this extraordinary press campaign," Mr Herro says. He became even more furious when he learnt that Mr Saatchi had submitted Mr Burnside's bill to the company. "The company has told me it did not pay," Mr Herro says.

Meanwhile a debate was raging in the press about why Saatchi was doing worse than rivals such as WPP. Was it poor operations management (Scott's responsibility) or failure to win new clients (Maurice's role)?

Peace broke out between Scott and Saatchi in the spring, when the company said both would stay on. As part of the settlement, Mr Saatchi appeared to respond to the widespread investor campaign against long contracts for public company directors. He dropped his five-year rolling contract worth £625,000 a year for a three-year fixed-term arrangement, paying £200,000 annually. The company had become "100 per cent politically correct", Mr Saatchi said at the time.

But Mr Saatchi's new package did not appear so PC to Mr Herro and other shareholders when they learnt that a new "super-option" package was being negotiated for him, which breached guidelines laid down by the Association of British Insurers, the fund management lobby group.

The company's remuneration committee, chaired by Sir Peter Walters, offered Mr Saatchi options worth eight times his old salary of £625,000, which would have given him a £5m profit in three years if the Saatchi share price reached 300p (compared with 153½p yesterday).

The views of the company's biggest shareholders were solicited privately. The unambiguous response from those controlling more than 40 per cent of the shares was hostile.

Meanwhile, Mr Saatchi found himself isolated from shareholders, company executives and directors on a different issue, that of whether his surname should be dropped from the masthead of the holding company.

Many of them feel that like "Thatcherism" – a brand that Mr Saatchi helped to create – the "Saatchi" name has passed its sell-by date for the holding company, *if not for* the advertising subsidiary, Saatchi & Saatchi Advertising Worldwide.

They feel that the development of subsidiaries such as Bates, which do not have "Saatchi" in their brand names, is stifled: when they win a client, the success is usually described as a "Saatchi" achievement.

Mr Saatchi, however, has told colleagues that removal of his name from the holding company masthead would force his resignation.

Whether he has the luxury of choosing to go – rather than being forced out – he will learn today. A colleague summed up the dilemma facing the board: "Like Thatcher's colleagues, directors have to decide whether to put their personal loyalty to him ahead of the good of the company."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

New jobs orthodoxy not reality

From Mr John Sheldon.

Sir, It was a refreshing change to see a combination of *common sense and healthy* scepticism in Richard Donkin's piece on the "end of jobs for life" debate ("Don't throw away those gold watches", December 14).

The zealots of the New Right have, until now, managed to create a new orthodoxy in the reporting of the world of work by mixing in a teaspoonful of truth with a barrel load of half-baked, politically driven science fiction.

In this brave new world, everybody is (or will soon be) a tele-worker on short-term contracts, paid *entirely* on the basis of some form or other of performance remuneration with an individualised relationship with the employer, moving rapidly between different employers and types of jobs, all *requiring different skill mixes.* Not only is this paraded as fact, but as desirable from the point of view of both individual employee and employer.

Away from Star Trek, this is far from the reality, but there is a danger that it will become reality by default. I have lost count of the number of times that senior civil servants and ministers have repeated with tedious regularity that "the old days with jobs for life have gone for ever" and then make some reference to the latest headline-grabbing burial of *lifetime employment as though* it was justification for this or that cutback or privatisation.

This represents the real use of the set of anecdotes and impressionistic observations that masquerades as a theory *of trends in working patterns.* It serves as an academic cover for the conscious political decision to attack conditions of service, particularly in the public sector – and to increase insecurity at work.

As Richard Donkin's article suggested, as a personnel strategy it is as damaging to employers as employees. Nothing is inevitable here and one of our objectives as a trade union is the preservation and further creation of real, secure employment options.

John Sheldon,
general secretary,
NUCPS,
124/130 Southwark Street,
London SE1 0TU

Imperative to modify ro-ro ships

From Sir William Barlow.

Sir, In the past few weeks two disasters at sea have warranted front-page headlines in the press. In the sinking of the ferry Estonia, more than 900 lives were lost; following the fire on the Achille Lauro cruise ship, almost all of the 1,000 passengers were saved.

The reasons? The roll-on, roll-off (ro-ro) design of the Estonia caused it to capsize completely in a few minutes with no time for evacuation; the Achille Lauro remained upright and afloat for many hours, with ample time for evacuation.

There must be an overriding objective to design new ships or modify existing ro-ro ships such that, following a significant ingress of water, an essentially upright position is maintained for at least 30 minutes to make evacuation practicable. Passengers on ro-ro ships are entitled to expect the same standards to ensure survival as those which apply to conventional passenger vessels.

Engineering solutions are available and cost or operational disadvantages must not be allowed to stand in the way of this entirely logical objective. The Royal Academy of Engineering is examining the matter and will be consulting shipowners among others.

William Barlow,
president,
Royal Academy of Engineering,
29 Great Peter Street,
Westminster,
London SW1P 3LW

Shareholders must exercise pay power

From Mr Edward Leigh MP.

Sir, The problems surrounding shareholder control of executive salaries were accurately and extensively reflected in your leader ("Can pay, will pay", December 6).

I am glad to hear that the government intends to act, as this was an issue which I addressed in a policy pamphlet which I published on November 28. I said there that the way forward was to empower shareholders. Two days later the prime minister told the House of Commons that he was prepared to consider a similar solution.

In my pamphlet, *Responsible Individualism,* I wrote that the public is justifiably suspicious when executives raise each other's salaries in a round of mutual pocket-lining. Especially since many of them per*form* roles more akin to ministers presiding over large bureaucracies than to genuine entrepreneurs who innovate and create wealth and jobs.

It is indisputable that capitalism and the market are the most effective systems to generate wealth and improve the material well-being of the nation. But man cannot live by those alone; a sense of right and justice must also be part of the equation. Politicians should give a lead.

The issue cannot be dismissed by the simple argument that British companies must be free to offer world-class salaries. There has been a real public outrage and that is something companies and government ignore at their peril. There is an important moral dimension and it is this which has been missing on recent economic policy. A sense of duty and service on the part of executives and a sensitivity to the feelings of those on low wages would not go amiss.

I do not advocate the Labour remedies of intervention and state regulation. We should empower shareholders – who, after all, own the companies and employ the managers – to enable checks to be placed on what the public suspects are unnecessarily large pay packages.

This can be achieved, first, by fiscal measures to encourage direct share ownership – something lacking at present; and, second, by legislation to ensure that City institutions take due note of the views of the beneficial owners of the shares they nominally hold.

I recognise there are difficulties in devising a mechanism by which the latter could be achieved, but it should be possible to introduce a legal system, however rough and ready, which would make *fund* managers respond to the opinions of the millions of investors whom they represent.

We should trust the people in this respect. The public is bright enough to know when they need adequately to reward an entrepreneur who boosts their dividends, asset values and pensions, but jaundiced enough to recognise blind greed.

Edward Leigh,
House of Commons,
London SW1A 0AA

Not a banker with that hat

From Mrs Charles Blackwood.

Sir, Your article, "Not yet the death knell" (December 10/11) impels me to challenge the photo caption, "Gentlemen bankers in Throgmorton Street near the Bank of England, 1967".

My father, in top hat, was at the time gilt-edged partner at Cazenove. He would be turning in his grave at being described as a "banker".

Susan Blackwood,
St Andrew's Farm House,
Great Durnford,
Salisbury, Wiltshire SP4 6AZ

Commission pays up within recommended time

From Mr Raniero Vanni d'Archirafi.

Sir, I would like to reassure Mr Greg Perry (Letters, December 10/11) that the European Commission does respect the payment delays suggested for member states and business in its November 30 recommendation. The average delay for all payments made by the Commission during the first 11 months of 1994 was 40.5 days, well below the 60 days recommended. Only a few of the Commission's payments (less than 10 per cent) took longer than 60 days, and in most cases these delays were the result of irregularities with the invoices.

Raniero Vanni d'Archirafi,
Member of the European Commission,
Brussels, Belgium

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Germany's EU balancing act

Last spring, France and Germany announced with some fanfare plans to co-ordinate their consecutive presidencies of the European Union – joined, a few months later, by Spain. Their ideas included turning the main pillars of the Maastricht treaty into reality – fleshing out a common foreign and defence policy and founding Europol, a police force to co-ordinate the cross-border fight against crime. They wanted to lay the foundations for enlargement of the EU to the east, balanced by a Mediterranean policy to stabilise the Union's southern flank, a vital French concern. And they wanted to provide a launch-pad for a big new step towards integration at the inter-governmental conference in 1996.

In the event, progress during the first six months, the German presidency, has been painfully slow, on all fronts. No fewer than 28 meetings held on Europol – a plan which would be popular with a European electorate worried about drug-trafficking and organised crime – have produced no decisions at all. Common foreign policy is bedevilled by Bosnia. As for eastern enlargement, the summit in Essen produced a few signposts, but little substance.

In the first place, Germany was hopelessly distracted by its own general election. And once that was over, the looming date of the French presidential election next spring seems to have paralysed progress. Given those circumstances, it is scarcely surprising that Germany's handling of its presidency came in for stiff criticism from the European parliament on Wednesday. Bonn was taken to task for a range of problems from vacillation over EU enlargement to its failure to stem refugee flows from ex-Yugoslavia.

Clearly, some hopes for the EU presidency were pitched too high. This may partly have reflected Mr Kohl's own optimistic forecasts in advance of Germany's October election. Differences of opinion with France and the EU's southern members about the pace of eastern enlargement to the east have become increasingly evident in recent months. In general, however, Mr Kohl has shown considerable consistency on this issue. In recent years he has regularly warned would-be members from central and eastern Europe against excessive optimism about the timetable for entry.

Not least because of the financial sacrifices that early eastern accession would demand from German taxpayers (especially farmers), Mr Kohl has important domestic reasons for caution over enlargement. Additionally, the fears of Europe's southern states of negative repercussions from the EU's tilt to the east and north need to be taken seriously.

Now that attention is shifting to the French EU presidency in the first half of 1995, Mr Kohl must hope for maximum co-operation with Paris during the period before the presidential election. Mr François Mitterrand has committed his successor to reaching an agreement on Europol next summer, vital to convince the German electorate that Europe can pool police resources to defeat cross-border crime.

Given Germany's preoccupation with eastern Europe, the German presidency should have been the high point for enlargement hopes to the east. The next three EU presidencies – of France, Spain and Italy – will inevitably be more pre-occupied with the south, and none have much incentive to press the case of the easterners. France will also be totally preoccupied with its own presidential elections. The 1996 IGC looks less likely to produce a grand, concerted push for deeper integration than a continuing muddle.

Gas cloud

At the very least, British Gas's plans to cut the wages and holidays of some of its least-well paid staff is a public relations disaster. The move, just weeks after the group awarded its chief executive, Mr Cedric Brown, a pay rise of 75 per cent, also suggests a degree of misjudgement and naivety within the company's top management that does little to justify exceptional salaries.

The timing could hardly be more controversial. Gas prices will rise above inflation next year, and public resentment is running high, as shown by the government's failure to raise value added tax on heating fuel.

British Gas explains the cuts in wages of its showroom staff – and the closure this year of 157 of its 423 showrooms – by the need to drag its retail arm into profit. As part of its modernisation, the cuts may make sense. The domestic market has matured, and gas is no longer battling fiercely to win market share. Wages and staffing levels in the showrooms need to be aligned to the high street, not to British Gas's internal scales.

But the group has been extraordinarily insensitive to public and political opinion. Even after a decade, the case for privatisation of utilities is hardly won in the public mind. The popular image of the legacy of privatisation is not of improved services but of rising water bills – and now of Mr Brown's £475,000 pay packet. Yet British Gas cannot afford to waste goodwill; it wants the Gas Bill now before parliament to spread the costs of providing universal access across all suppliers.

The group's latest advertising trumpets the flexibility of gas, with the slogan "don't you just love being in control?" But its executives may now find, having turned up the political heat, that they cannot turn it down.

Rail halt

Critics of UK rail privatisation characterise it as a "poll tax on wheels", a project so unpopular it will have to be abandoned. Recent events give credence to that verdict. But this need not be the outcome, provided there is both more experimentation and more careful thought.

This privatisation is running into political buffers. First, a report by railway experts to the transport select committee warned that inadequate subsidies could lead to the closure of half the rail network. Second, the franchising director unveiled his passenger service requirements, which confirmed fears that services could be cut. Finally, a leaked Department of Transport memo has revealed Whitehall concerns that the process is advancing too fast.

These developments have increased the pressure on the government to back down. This is hardly surprising since public support for rail privatisation has never been more than lukewarm. One possible response is that no privatisation was popular initially, but most seem justified in retrospect. Yet this government is hardly in a good position to persist with an unpopular policy. Furthermore, there are good reasons even for supporters of the privatisation to be concerned.

This does not mean that the privatisation is a bad idea. The rail system does urgently need an injection of private sector management, since British Rail's performance was notoriously unsatisfactory. It could do with private sector capital as well, since sufficient public funds will not be forthcoming. Separating train operations from ownership of the track and stations appears complicated. But it has parallels in the airline and shipping industries and is being applied with success abroad. That the idea is new is hardly a cogent objection.

Closer examination of what is happening shows that many fears are misplaced. The minimum service requirements will allow train operators to cut services, but there never was any guarantee of service levels under British Rail. In any case, it cannot make sense to insist that the present network and service be maintained in full. The new system will also provide commercial incentives for operators to run more trains if they are profitable. In addition, tight controls are proposed on commuter fares, which should assuage the concerns of these politically influential, captive passengers.

Nevertheless, there is a strong case for proceeding with caution. There are legitimate worries, for example, about the extent to which tickets will be available for journeys across the rail system. The prospect that long-distance tickets will be available only from a "core" group of main stations is also a concern.

Yet the really big mistake is to proceed with franchising most of the inter-city network, and a large part of London's commuter services, in one go. The first franchises ought to serve as an opportunity for learning, with the inevitable mistakes avoided in future contracts. Among other things, the level of subsidies – the indefinite continuation of which is justified by the failure to charge the social costs of competitive modes of transport – must be adjusted in the light of experience with the franchises. In addition, the privatisation of Railtrack, which owns the stations and track, is being pushed too fast.

If ever there was a case for trial and error, this privatisation is it. The government must be more cautious. Otherwise, the great train privatisation will go the way of the poll tax.

The Italian prime minister's position is becoming more perilous, as financial and political pressures grow, says **Robert Graham**

Curtain rises on the final act

Like the flow of lava spilling from a volcano, the accumulated errors of eight months' government are overwhelming Silvio Berlusconi and his rightwing coalition.

Following Mr Berlusconi's interrogation on Tuesday by Milan anti-corruption magistrates, the government headed by Europe's first media magnate-turned-politician could fall before Christmas. The exact timing will be determined by the final passage of next year's budget through parliament.

But while the government looks certain to resign, no clear alternative has yet emerged.

"We are in fact one step away from a 'general crisis': that breaking point where the confused state of Italian democracy could precipitate a collapse of the entire system," warned Mr Ezio Mauro, the editor of La Stampa newspaper, owned by the Agnelli family.

Tempers are running high in parliament, where verbal abuse has become more aggressive as the world has been divided into friends and foes of the government. Mr Umberto Bossi, leader of the populist Northern League, has turned from coalition partner into the prime minister's greatest adversary.

Mr Berlusconi is lashing out ever more desperately at his perceived enemies – Mr Bossi, the Milan magistrates, the communist-dominated left and even his former fellow businessmen. Increasingly, 57-year-old Mr Berlusconi presents himself as the victim, behaving like a latter-day King Lear cast loose in a storm; a man "more sinned against than sinning".

"We are building up to a storm of unheard-of violence: one of those epic, homeric storms", observed Mr Giuliano Ferrara, minister for parliamentary affairs and the government's spokesman.

The elements of the storm can be divided into the external and internal pressures.

The principal external pressure comes from the financial markets. With Italy's debt now more than 125 per cent of gross domestic product, the country is enormously vulnerable to speculation against the lira.

The lira is already at an historic low, close to L1,050 to the D-Mark. Since Mr Berlusconi took office in May, it has depreciated more than 8 per cent against the D-Mark. The Italian risk factor is also reflected in the 4 percentage point differential between Italy's and Germany's interest rates.

The authorities might be forced to raise interest rates to defend the currency; that would further increase the public sector deficit, which is already 10 per cent of GDP. As a rule of thumb, each percentage point rise in interest rates adds an extra L15,000bn in a full year to the Treasury's budget.

Italy's political uncertainty has added to the doubts in the markets, with fears that the government's programme for reducing the deficit in the 1995 budget will fail.

The budget was never more than the minimum necessary – it would have held the deficit to L138,000bn, equivalent to 8 per cent of GDP. Now that aim has been seriously weakened by the decision to remove pension reform from the package of measures to head off a general strike planned for December 2. Pensions are the single largest current spending item in the budget, and the postponement of reform until next June will create a further six months of uncertainty.

Even without the removal of the measures to cut the cost of pensions, the budget targets would have been missed. The deficit reduction has been undermined by a combination of higher than anticipated payments on Italy's huge stock of debt, lower Treasury receipts this year, the cost of paying for damage caused by November's disastrous floods in the north and the need to provide funds for pension arrears after an expensive constitutional court decision on the subject.

Mr Lamberto Dini, the Treasury minister, admitted this week that the budget is effectively out of date and additional measures would be needed early next year. Experts believe that a gap of at least L25,000bn will have to be bridged, almost certainly by raising taxes, which Mr Berlusconi pledged not to do in his election campaign.


Silvio Berlusconi (left) is increasingly in conflict with Umberto Bossi (top right) and President Scalfaro

The continued weakness of Italy's public finances at a time of political turmoil means a rise in interest rates cannot be excluded. The prospect of the damaging consequences of a fresh rate rise could determine the nature and length of the impending political show-down.

All parties are agreed the budget must be approved rapidly, no matter how imperfect its measures. Otherwise the lira, already under pressure in the financial markets, could come under renewed attack.

"Once the budget is approved, Berlusconi should resign," observed Mr Massimo D'Alema, opposition leader and head of the former communist Party of the Democratic Left. "I have to accept that the government no longer exists."

If the external pressures are financial, the internal ones are political. First there is the increasingly anomalous position of Mr Berlusconi, who is under investigation for corruption while running Fininvest, his business group which is Italy's second biggest private company. He is alleged to have known about the payment of bribes to members of the Guardia di Finanza, the financial police, to ensure favourable inspections of the group's books.

Mr Berlusconi has rebutted the charges with vigour: "Everything is based on the presumption of knowledge of operational arrangements [in Fininvest companies] which I never dealt with and could never have done, given the well-known size of the group," he commented combatively after his interrogation by the magistrates.

He has also made clear his determination not to resign. "It is my firm intention not to back away from the task confided on me by the majority of Italians in the mandate from the March 27 elections."

This sense of a popular mandate is deeply imbued in Mr Berlusconi and feeds his conviction that he can appeal directly to the electorate through television, over the head of parliament. His ability to drum up support in this way should not be underestimated since RAI, the state broadcasting organisation, is now run by his supporters, and his three commercial channels account for more than 85 per cent of the private television market.

But resorting to the media to survive merely focuses the spotlight on another of the anomalies surrounding Mr Berlusconi, the conflict of interest between his role as prime minister and his ownership of Fininvest. He has been unable – or unwilling – to distance himself from Fininvest since he took office.

The prospect of a fresh rate rise could determine the nature and length of the impending political show-down

Rather than improving, the situation becomes more entangled the longer he governs. For instance, it is impossible to see how his government could reform Italy's broadcasting system, where his dominant position has become a matter of political controversy, without being considered partisan.

And although he is trying to use his position as prime minister to defend himself against the scrutiny of the magistrates, their investigation relates to Mr Berlusconi's time as a businessman, not as premier. He has failed to explain why, as the founder and chief executive of Fininvest, he did not interest himself in the visits of the Guardia di Finanza, especially in a group that is structured in a cascade of tax-efficient companies.

Moreover, the case against him remains open for a full six months, dating from the first warning on November 21 that he was under investigation. The cloud of suspicion cannot be dispelled quickly.

Meanwhile there is now open war between Mr Berlusconi and the Milan magistrates. Since October, inspectors of the justice ministry have been checking on the behaviour of the Milan magistrates.

Mr Berlusconi and Mr Alfredo Biondi, the justice minister, insist they are trying to ensure that proper judicial practices are being observed. The magistrates have clearly abused the rights of citizens in interrogations and in leaking documents to discredit individuals – not least Mr Berlusconi. But these events are portrayed by the government's opponents as a determined, self-interested attempt by the government to undermine anti-corruption investigations.

In the past 10 days the confrontation has forced the resignations of Mr Antonio Di Pietro, Italy's best-known anti-corruption magistrate, of an appeals court judge and all 21 inspectors at the justice ministry. The wounds are now being felt within the judiciary itself as people take sides.

The situation is such that there can be no peace between the Milan magistrates and the present government. And it is a battle in which each is seeking to disable the other.

Another equally damaging institutional conflict has raged between the prime minister and President Oscar Luigi Scalfaro since Mr Berlusconi took office in May.

The mutual mistrust is every day more apparent. Mr Berlusconi does not prevent his ministers from raining insults on the president. Nor does he dissuade them from making dark threats to raise embarrassing questions about his Christian Democrat past as interior minister.

By failing to reach a *modus vivendi* with President Scalfaro, Mr Berlusconi has alienated the figure whose constitutional position allows him to play the central role in the next stages of the crisis – the formation of a new government or the dissolution of parliament. The hostility between the prime minister's office and the presidential palace has passed a point of no return.

A similar point has been reached in Mr Berlusconi's relations with Mr Bossi. The League leader has long been playing the opposition within the rightwing coalition. This week he voted against the government for the first time and has effectively changed sides. Mr Bossi has never felt comfortable in the same alliance as the neo-fascist MSI/National Alliance of Mr Gianfranco Fini.

But there has been a far greater contradiction at the heart of the coalition. Mr Bossi has never had an interest in anything but the short-term success of the Berlusconi government. The League is a lesser partner in the coalition, and Mr Berlusconi's Forza Italia movement was instrumental in providing backing to elect the bulk of Mr Bossi's deputies. A durable government could submerge the identity of the League in that of its larger partner.

By threatening to break the alliance, Mr Bossi has retained the League's identity. But this tactic cannot be maintained throughout the life of a legislature, and Mr Bossi's threats to leave the government once the budget is approved look likely to come to pass.

The present government can be brought down only in parliament, but the League's defection to the opposition would provide the necessary numbers to bring this about. Until now the League has hesitated because Mr Bossi fears early elections and has failed to secure an alternative alliance. But Mr Bossi has now pushed himself into a position where he cannot draw back.

Mr Berlusconi is the only political leader to favour early elections, with the reluctant endorsement of his chief ally, Mr Fini. However, President Scalfaro is likely to explore other options first, if only because the electoral laws need to be changed to remedy the faults of the reformed system first used this year.

There is also a strong practical objection to early elections, since this would entail at least three months of uncertainty during the preparation and campaign – the most alarming scenario for the financial markets.

One alternative would be a restyled version of the present government. It would be headed by Mr Berlusconi but less reliant on the MSI/National Alliance and would have links to the centre parties that are guardians of the Christian Democrat heritage. The League might accept this formula; and significantly Mr Berlusconi's Channel 5 ran a telephone vote on Wednesday that showed 50 per cent in favour.

But the idea suffers from being linked to the figure of Mr Berlusconi, whose position is clouded by the judicial investigation into his affairs. No other leader could easily hold this type of coalition together, not least because Forza Italia remains little more than a Berlusconi supporters' club.

This leaves various forms of a broad-based government of national unity as the most stable option. Such a government would have the limited and clearly defined task of tackling Italy's public finances and preparing a new electoral law – not unlike the 1993-94 administration of Mr Carlo Azeglio Ciampi.

As the showdown approaches, the most optimistic tone has been sounded by Mr Ferrara, the government's spokesman: "When venom thickens the air forcing great storms to break, this cleans the atmosphere."

Instability may lead to political regeneration. But the Italian political system, caught between the need for change and the instinct for self-preservation, is unlikely to produce a clear-cut solution.

OBSERVER

Passing the baton

■ Will UN Security Council meetings ever be the same again, now that Sir David Hannay, the UK's representative, is to step down next July?

Always ready with a crisp warning for Saddam Hussein or (rather less credibly) to the Bosnian Serbs, the Humphrey Appleby look-alike has rather become the dominant figure in the council since 1992, when his US colleague Tom Pickering was exiled to India.

Pickering was replaced by the lacklustre Ed Perkins, followed by Clinton confidante Madeleine Albright, for whose inexperience Hannay felt the need to cover, sometimes in an offensively obvious manner. But then, subtlety was never Sir David's strong suit.

The typical self-confident Wykehamist, his abrasive bonhomie was given particularly free rein when he represented Margaret Thatcher's government at the EC between 1985 and 1990.

Hannay hands over to Sir John Weston, currently Britain's man at Nato. Briefly political director of the Foreign Office during the Gulf war, Sir John is credited with having persuaded John Major to intervene on behalf of the Kurds. Lady Weston had watched what was happening on television, and gave him no peace until he did something about it. Presumably she will not be underemployed during her husband's next posting.

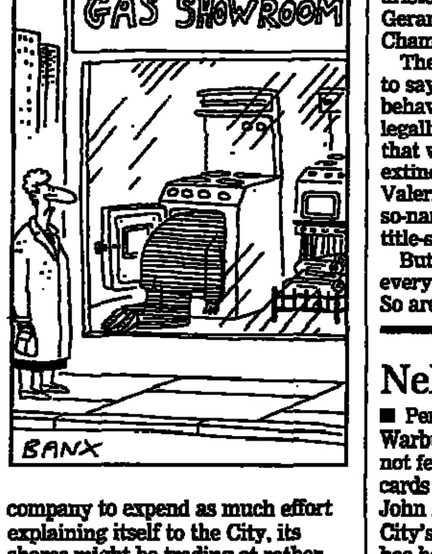
Pulling strings

■ There are those who say that, without Denis Vaughan, Britain would not have a lottery. Vaughan, an Australian-born orchestral conductor, would presumably include himself in the list. He has been lobbying government for years on the subject – but now it is up and running he reckons too much lolly is going to the greedy operators, and that more of the profits should be distributed to the arts.

So Vaughan has just submitted to the Treasury a modest invoice for his services to date – £3,695,000. If Her Majesty's government coughs up – not a racing certainty, it has to be said – the monies will be put to good use in the guise of the Denis Vaughan Orchestral Trust Fund.

Humble pie

■ Some good news at last from BTR, the giant conglomerate which has lost its premium rating after underperforming the stock market by around a quarter over the past six months. It has just won a ProShare award for its success in attracting private shareholders. ProShare singled out BTR for attracting over 500 new shareholders a week despite its falling share price. Were the company to expend as much effort explaining itself to the City, its shares might be trading at rather less humble levels.



Enchanté

■ In the good old days, of course, spooks had no names at all. Even allowing for the showier demeanour of the modern variety, however, there are those who would consider the recent escapades of Guy Azais, number two in France's leading spy agency, faintly *outré*.

For Azais, who works at the General Directorate for External Security, has just multiplied himself. A commoner is reborn an aristocrat. Meet Guy Marie Joseph Gerard Azais de la Garde de Chambonas.

The genuine aristocracy, needless to say, has no truck with such behaviour. But commoners may legally adopt aristocratic handles that would otherwise become extinct. The former president Valerie Giscard d'Estaing was only so-named because his family went title-shopping in the 1920s.

But it didn't work. Almost everyone referred to him as VGE. So are you ready GMJGAGC?

Nelson's eye

■ Perfectly understandable if Warburg's Sir David Scholey does not feel like exchanging Christmas cards with Lazards' vice-chairman John Nelson. Nelson, one of the City's shrewder merchant bankers, has been making life miserable for S.G. Warburg of late. First, he was one of the main reasons why GEC chose Lazards rather than Warburg in its bid for VSEL, despite the fact that Scholey is a GEC director.

When there are so few big bids around, it might have helped Warburg impress Morgan Stanley a bit more if GEC's Lord Weinstock had given it the nod. Now Warburg's planned get-together with Morgan Stanley has collapsed because Warburg's Mercury Asset Management subsidiary dug its heels in over the price. Guess who was advising MAM? Much more of this and Warburg will have to make a takeover bid for Mr Nelson. Better to have him on the inside etc, etc.

Expensive exit

■ Forget Trafalgar House's Nigel Rich or his big boss, Simon Keswick. The man to watch in the coming battle for Newcastle's Northern Electric is Ian Robinson, a 52-year-old Geordie who has been running Trafalgar House's biggest business, its engineering division.

A fortnight ago, he handed in his notice to take up a new job as chief executive of ScottishPower – which also happens to be very interested in what happens to Northern Electric. Not only does Robinson know where the weak spots are in Trafalgar House's brand new top management team – and there are still a few – but he should also have a pretty good idea of Traf's game plan for Northern Electric. Hard to imagine an old pro like Lord Hanson letting such a key player slip away at such a crucial time.

First footing

■ British Coal may soon be handing over its *raison d'être* to the private sector, but its marketing department has not lost its sense of humour. Its festive cards carry the following inscription: "It's Merry Christmas from us, and Happy New Year from someone else."

FINANCIAL TIMES
Friday December 16 1994

Aircraft crashes spark a crisis of confidence

Richard Tomkins in New York on new fears over turboprop flights

Commuter airlines using propeller-powered aircraft may face growing passenger doubts following this week's fatal crash in North Carolina.

Short-hop flights on small aircraft are big business in the US: there are more than 12,500 a day. But many passengers dislike the propeller-powered aircraft typically used – and may be even less keen to fly in them now.

On Tuesday evening a turboprop BAe Jetstream Super 31 on an American Eagle commuter flight crashed on its approach into Raleigh-Durham International Airport, killing 15 of the 20 passengers. The cause is not yet known.

The accident came less than two months after another American Eagle turboprop, an ATR-72, crashed while waiting to land at Chicago's O'Hare International Airport, killing all 68 on board. Ice on the wings is suspected.

The accidents themselves would have been enough to make some passengers jittery about flying in turboprop aircraft. But last month, they were given another reason to feel nervous when the *International Airline Passengers Association*, a Washington-based consumer organisation, said people should fly by propeller-driven aircraft only in good weather during daylight to minimise the chance of accidents.

Further anxiety was caused last weekend when the Federal Aviation Administration banned the ATR-72 and ATR-42 turboprop aircraft from flying in icy conditions, causing widespread cancellations in the north-eastern US.

Turboprop aircraft are disliked by many passengers because they tend to be slower, noisier and more cramped than jets. But their use is growing in the US where they provide the cheapest means of picking up small numbers of passengers from local communities and feeding them into longer-distance flights at regional hubs.

As airlines face increasing competition from low-cost carriers, they are replacing jets with turboprops on some routes. Earlier this year American Airlines replaced its jet services in Cincinnati with turboprop flights.

To some extent, the fears associated with turboprop aircraft are justified. Statistics show that, on US domestic flights, regional airlines suffered 0.11 fatal accidents per 100,000 flights last year – more than three times the rate of the big carriers.

Some of the reasons cited for the difference include less rigorous training standards for pilots of small aircraft, less sophisticated equipment, less effective de-icing gear, and vulnerability to bad weather because the aircraft fly at lower altitudes.

However, the Regional Airline Association, a US industry body, says the safety fears are exaggerated. Excluding Alaska, where operating conditions are extreme, it says the fatal accident rate for regional airlines falls to 0.037 per 100,000 flights – not much higher than the big carriers.

Still, Ms Deborah McElroy, the association's vice-president, says it would be naive to believe that the safety concerns are not affecting passenger numbers. "You read in the papers that some people are driving rather than taking a turboprop aircraft, which is ironic since it's nearly 100 times safer to use a regional airline than it is to make the same trip by car."

Karadzic peace plan gets cool response from west

By Our Foreign Staff

Western governments reacted coolly yesterday to the six-point peace plan proposed by Mr Radovan Karadzic, the Bosnian Serb leader, and his invitation to Mr Jimmy Carter, the former US president, to act as a mediator.

Mr William Perry, US defence secretary, speaking in Brussels at a meeting of Nato defence ministers, said the plan "could be a positive step forward in the humanitarian direction" but "history indicates the need for some scepticism".

Mr Alain Juppé, French foreign minister, was more hostile: "There is a provocative aspect to the plan which is unacceptable."

In London, senior officials said they would welcome any attempt by Mr Carter to promote peace in the region but admitted they were "sceptical rather than cynical" about what such an intervention could achieve.

In Sarajevo, the Moslem-led Bosnian government dismissed the initiative as a "ploy to buy time".

In an interview with Cable News Network television on Wednesday night, Mr Karadzic asked Mr Carter to mediate and proposed a plan for Bosnian Serb forces to give up some territory, agree an immediate ceasefire around Sarajevo and the reopening of the city airport, release detained United Nations officers and Moslem prisoners of war younger than 19, and allow free passage of relief convoys.

Mr Carter was yesterday awaiting evidence of a cessation of hostilities in Sarajevo before deciding whether to leave on a private mediation mission. A White House official said early reports were that Mr Karadzic was living up to his commitment to stop firing on the Bosnian capital and to end interference with UN humanitarian deliveries. If the lull continued, Mr Carter could be "on his way in 24 hours", the White House said.

Bearing in mind Mr Carter's successful diplomatic efforts this year in North Korea and Haiti, President Bill Clinton has clearly found it difficult to reject out of hand the offer of mediation by the former president. However, the White House stressed that any mission would be private.

It said that while any action to reduce tensions was welcome, "it remains our view that a solution to this conflict will only be found at the negotiating table" on the basis of the settlement already proposed by the contact group comprising the US, Russia, Britain, France and Germany.

Mr Perry said Mr Carter had promised not to deviate from the existing peace plan as the basis for a long-term settlement.

France and US raise stakes, Page 2

Russian demands threaten $15bn Arctic oil project

By John Thornhill in Moscow

A $15bn project to develop the Timan Pechora oil basin in the Russian Arctic is in jeopardy following last-minute demands by the Russian partner for a 50 per cent equity stake.

A western consortium of Texaco, Exxon, Amoco and Norsk Hydro, intended to sign a protocol agreement this week in the presence of Mr Al Gore, US vice-president, visiting Moscow to promote trade links between the two countries.

However, Archangelskgeologia, a state-owned geological company, has now demanded a 50 per cent stake in the project. A local newspaper quoted a company official as saying: "We are not some kind of Indonesia or Angola – we do not need to give such a project entirely to foreigners."

The western consortium would have signed a production-sharing agreement to act as contractors to the Russian government. Moscow would retain all ownership rights to the reserves and receive about half the project's cash flow in taxes, royalties and profit-sharing. The consortium expected to spend about $15bn over the next 12-15 years.

Archangelskgeologia, which discovered the reserves, estimates there may be 5bn barrels of oil in Timan Pechora.

Under the original proposals it would have served as a non-equity contractor to the consortium. Part of Timan Pechora's appeal for western companies was the absence of a powerful local oil industry, like that in western Siberia, Russia's main oil region.

Texaco and Exxon would each have had a 30 per cent stake with Amoco and Norsk Hydro owning 20 per cent each.

The demands of Archangelskgeologia are "now the only stumbling block to the deal," said Mr Thomas Hazen, president of the Timan Pechora company, who has been negotiating the project for the past four years.

Mr Hazen said the project had the support of senior Russian government officials. "I am confident that this problem can be resolved but this is a Russian problem which needs a Russian solution," he said.

Disputes between regions and Moscow authorities over ownership of oil reserves have been one of the main impediments to new oil developments in Russia.

The Timan Pechora region is seen as one of the most promising oilfields in Russia. Nine western and four Russian companies are discussing a feasibility study for an offshore terminal to provide a direct link to export markets. This would involve a $2bn investment.

MAM sinks merger plan

Continued from Page 1

contacted Warburg to tell it that MAM's terms were unacceptable.

The breakdown may encourage Morgan Stanley to bid for another fund management firm. Mr Fisher said that growing an asset management business was "a very big priority for us".

French bank warning

Continued from Page 1

only after a new president has installed a government in May.

While vaunting its success in reducing the central government deficit, the Balladur government has used recent windfall gains in tax receipts to meet new spending commitments. Under Maastricht accounting rules, the government cannot use privatisation receipts to meet the deficit because the sales of public companies are subtracted from the state's assets.

Mr Trichet also warned unions to keep wage demands low and urged companies to invest and to build new industrial capacity so that, allowing for a catch-up from the 1993 recession, the economy could grow by 3 per cent or more without inflation increasing.

THE LEX COLUMN

Warburg wounded

The failure of S.G. Warburg's merger talks with Morgan Stanley leaves the former wounded. Warburg has signalled its need for a partner with strong US securities distribution to achieve its ambition of becoming a global investment bank. It may put on a brave face and say it can still pursue this goal using its own resources. But it will be hard to convince shareholders, customers and employees that it is possible or sensible to do so – particularly with Morgan Stanley indicating that it considered Mercury Asset Management rather than Warburg the crown jewel in any merger.

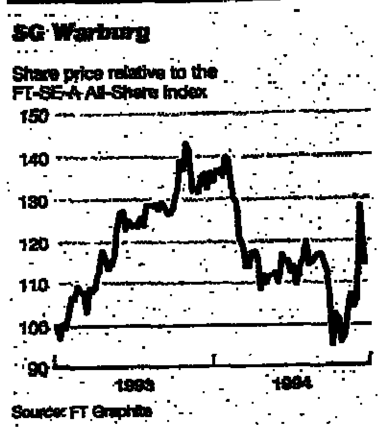
The snag is that Warburg has come so far down this road that it will be hard to turn back. The concept of a global investment bank may be valid, given the internationalisation of capital markets. But Warburg has invested much money pursuing this goal without generating appropriate dividends. It has accumulated a cost base attuned to its global ambitions but not the revenues to match.

One alternative would be to abandon its global ambitions and retrench as a niche operator. But this would require big restructuring charges, as well as the management eating a large humble pie. Another alternative would be for Warburg to sell itself to a larger commercial or investment bank. There would be no shortage of suitors. The opportunity to buy a merchant bank with Warburg's franchise rarely occurs. But a cash sale would not appeal to the management and a hostile bid is unlikely.

Morgan Stanley comes out of the saga looking greedy. It hoped to acquire MAM without paying its minority shareholders an appropriate premium. Warburg looks naive in allowing Morgan Stanley to hold the belief that it could get away with this.

Warburg's board is now under pressure to prove itself. It must restore morale among its workforce while controlling its costs. It will also need to demonstrate to shareholders that pouring more money into the global strategy is a wise use of their funds.

FT-SE Index: 2973.4 (-7.2)



Trafalgar House

Trafalgar House got off to a good start in the inevitable battle with Northern Electric over which boasts the better management. Admittedly, it was never going to be difficult to improve on Trafalgar's £427m losses achieved in the previous two years. Performance for 1994 also benefited from last year's £195m of property writedowns. That boosted profits from housing and property sales, and also enabled £20m of write-backs.

Nevertheless, the new management from Hongkong Land deserves credit for improving efficiency within the core businesses. The engineering division was always a world leader with stable revenues throughout the recession, but management controls had vanished. Under the new regime, engineering costs fell by £30m last year, following 2,000 redundancies. Performance may have been hit by a £22m restructuring charge and tight margins as Trafalgar works through an order book built during the recession. But the engineering division is now highly geared towards recovery.

This year, group profits will rise rapidly as exceptional losses fall. But there is a danger that this could be eclipsed by its interest in Northern. Steady but boring utility earnings would dilute the impact of an engineering-led recovery. Moreover, even if a bid for Northern does not proceed, Hongkong Land has signalled it wants to put more money into an enlarged Trafalgar. That may reduce the opportunity for earnings growth. Investors should be wary.

Asda

Asda's shares have outperformed the market by 34 per cent so far this year, the best performance of any FT-SE 100 stock after British Steel and GKN, and better than all the food retailers except Morrison. Yesterday's sparkling figures show why.

Asda is enjoying a renaissance which has brought it back from the brink. Like-for-like sales growth rose 7.1 per cent in the first half, far better than other superstores and a considerable achievement in a competitive market. The performance reflects a full-scale revamp of the stores' offering, as well as price cutting. The latter led to a 0.5 per cent fall in gross margins, significantly worse than at competitors such as J. Sainsbury or Tesco. However this was more than offset by a combination of greater productivity and increased sales volumes. The result is that operating profits at the Asda stores rose at more than twice the rate of sales growth.

The muted market reaction to yesterday's numbers reflects some disquiet about Asda's falling depreciation charge. But the real issue is whether Asda is becoming just another well-run food retailer, rather than a recovery story. Its three year restructuring programme comes to an ends next summer. Thereafter earnings growth will slow. In the meantime, investors' preferences are likely to shift to the dull performers in the sector, for example J. Sainsbury.

Siemens

It is encouraging that Siemens is predicting a 20 per cent increase in net profits in the current year, but this does not mean a revolution in the group's poor competitive position. The expected turnaround at the ailing Siemens Nixdorf information technology subsidiary is one factor: recovery here is welcome, but long overdue and Siemens should have bitten the bullet and pulled out of this business years ago. Another factor is likely to be reduced spending on rationalisation, which absorbed DM2.7bn in the last financial year. This was far more than its net profits of DM1.65bn, and yet the headcount has dropped by a modest 21,000 out of a total workforce of 382,000 people.

This year Siemens is likely to cut 12,000 jobs, but it should be doing more to cut costs. The message is underscored by the publication yesterday of the first segmental breakdown of operating profits. The table showed that telecommunications accounted for more than half the group's non-financial profits. That is more than expected and reveals heavy dependence on a market vulnerable to price pressures in the run-up to Deutsche Telekom's privatisation. Analysts meeting the company in Munich today should press hard on how it intends to deal with the challenge, if not through further cost-cutting.

FT WEATHER GUIDE

Europe today

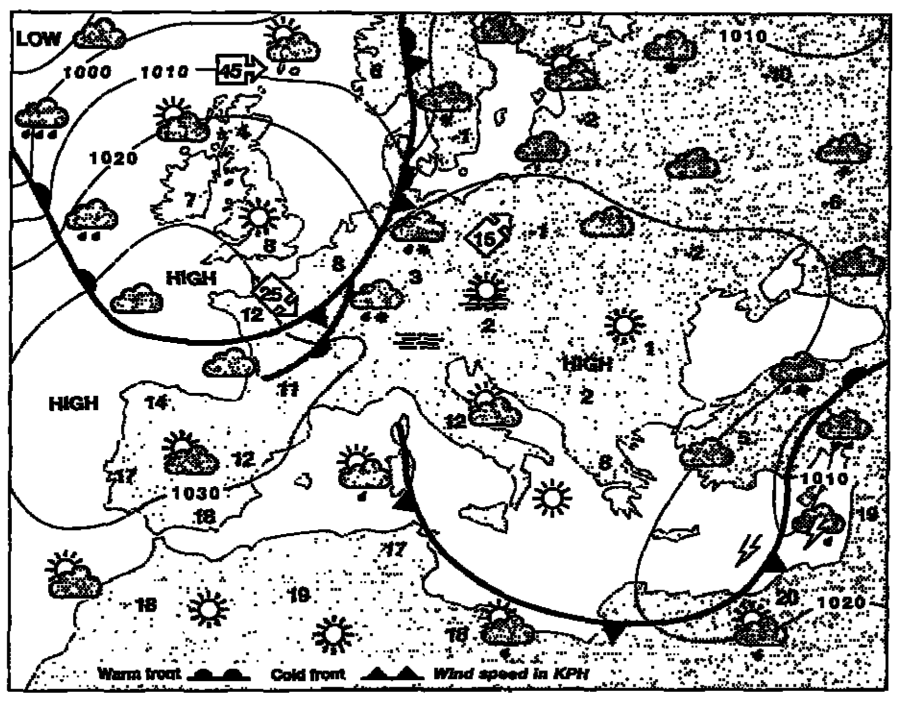
A frontal system will pass through Europe today producing early morning sleet or snow that may cause icy conditions in eastern parts of the Low Lands, northern France and western parts of Germany.

The Alpine region will have light snow later in the day. A depression moving east over southern Norway will result in snow. Behind the frontal system, cool air will spread over Ireland and Great Britain. A ridge of high pressure will bring sunshine.

Showers are likely in the Scottish and Irish coasts. The Highlands may have some snow. Later on, cloud will thicken in north-west Ireland and western Scotland. Rain will follow late in the day.

Five-day forecast

Eastern Europe will have calm and dry conditions. On Saturday Spain, France, the Low Lands, Germany and the Balkans will become more settled. Fog may develop. North-western Europe will become unsettled from Sunday, with showers and gusty winds developing. Temperatures will reach seasonable levels. Heavy snow could develop in the Alps.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	sun	-1	Caracas	fair	29	Faro	fair	17	Madrid	fog	7	Rangoon	fair	31
		Celsius	Belfast	fair	5	Cardiff	fair	6	Frankfurt	cloudy	2	Majorca	fair	16	Reykjavik	snow	2
Abu Dhabi	fair	26	Belgrade	fair	2	Casablanca	fair	18	Geneva	fair	4	Malta	fair	18	Rio	fair	33
Accra	sun	33	Berlin	cloudy	-1	Chicago	cloudy	4	Gibraltar	fair	17	Manchester	fair	6	Rome	fair	13
Algiers	sun	17	Bermuda	fair	21	Cologne	sleet	4	Glasgow	drzzl	5	Manila	cloudy	30	S. Frsco	fair	13
Amsterdam	rain	7	Bogota	cloudy	21	Dakar	cloudy	28	Hamburg	sleet	2	Melbourne	sun	24	Seoul	fair	0
Athens	fair	9	Bombay	sun	33	Dallas	shower	14	Helsinki	fair	-7	Mexico City	fair	22	Singapore	cloudy	31
Atlanta	rain	10	Brussels	rain	6	Delhi	sun	22	Hong Kong	cloudy	21	Miami	fair	27	Stockholm	cloudy	-1
B. Aires	thund	34	Budapest	fair	0	Dubai	fair	27	Honolulu	fair	29	Milan	fog	6	Strasbourg	sleet	1
B.ham	fair	6	C.hagen	sleet	2	Dublin	fair	6	Istanbul	cloudy	5	Montreal	fair	-2	Sydney	fair	24
Bangkok	fair	33	Cairo	fair	20	Dubrovnik	sun	11	Jakarta	thund	30	Moscow	cloudy	-11	Tangier	fair	16
Barcelona	fair	13	Cape Town	sun	28	Edinburgh	fair	5	Jersey	fair	10	Munich	fog	-1	Tel Aviv	sun	19
									Karachi	sun	28	Nairobi	cloudy	25	Tokyo	fair	12
									Kuwait	fair	18	Naples	sun	12	Toronto	cloudy	3
									L. Angeles	fair	19	Nassau	fair	28	Vancouver	rain	9
									Las Palmas	fair	23	New York	fair	6	Venice	sun	7
									Lima	cloudy	24	Nice	fair	14	Vienna	fog	1
									Lisbon	fair	16	Nicosia	rain	16	Warsaw	fair	-2
									London	fair	7	Oslo	snow	-1	Washington	rain	8
									Lux.bourg	sleet	1	Paris	rain	7	Wellington	fair	17
									Lyon	fog	3	Perth	fair	37	Winnipeg	cloudy	-3
									Madeira	cloudy	20	Prague	fair	-3	Zurich	fog	1

هكذا من الاصل

FINANCIAL TIMES SURVEY

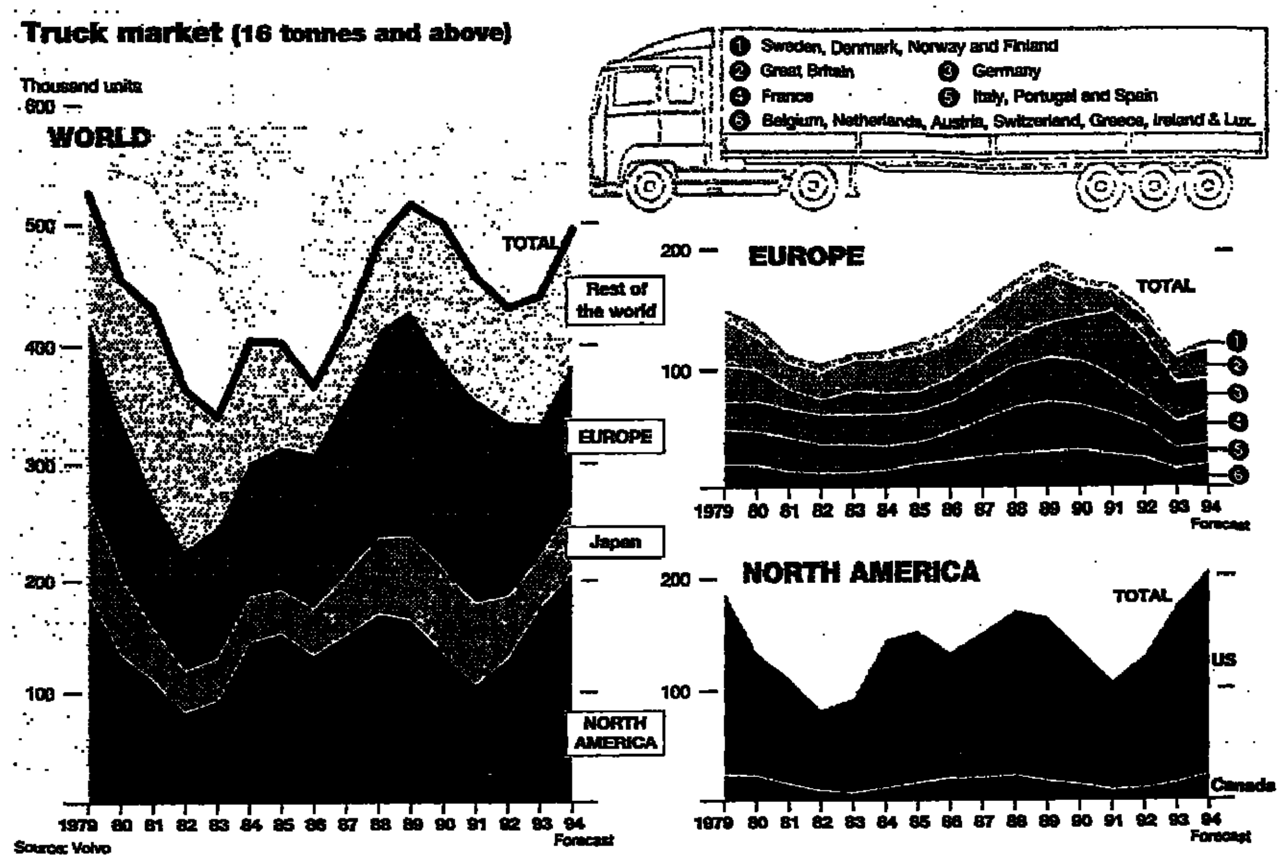
WORLD COMMERCIAL VEHICLES

Friday December 16 1994

On track for Europe: a Scania truck lines up on the Channel Tunnel train

Worst is over for the global truck makers

After four years of recession, demand for commercial vehicles is beginning to rise in Europe and Japan. Kevin Done examines prospects for the industry



The world truck industry is no place for the faint-hearted, as markets plunge through exaggerated cycles of feast and famine.

Four years of recession in western Europe had pushed most of the region's truck makers into loss by last year with one leading producer collapsing into receivership. Now the European industry's fortunes are again on the mend, but already truck makers at the forefront of the recovery are straining against the limits of their production capacity, as demand rises more steeply than expected in markets such as the UK and Scandinavia.

In North America, heavy truck makers lost more than a third of their market between 1986 and 1991. In the past three years sales have surged back, however, with demand almost doubling from 108,000 in 1991 to a forecast level of more than 206,000 this year. Leading US producers such as Paccar are achieving record profits.

In Japan, truck registrations fell for five years in succession from 1989 to 1993, but here, too, the worst of the recession appears to have passed. Japanese domestic truck sales, exports and production have all begun to recover in recent months.

Surviving such sharp fluctuations in demand exerts heavy pressures on the truck makers, and their ranks have been thinned as each recession takes its toll. In western Europe there were still 52 truck makers in operation in 1975. By 1984, the total had been reduced to 14 and by this year the number had fallen to 11.

The outcome of the latest bout of restructuring in Europe remains unclear, however. Daf, the Dutch commercial vehicle maker which took over Leyland, the loss-making UK truck producer, in the second half of the 1980s, became the most notable victim of the latest recession, when it collapsed into receivership in early 1993.

The former Daf group's Dutch and Belgian heavy truck operations have been re-established, however, thanks to a state-backed rescue package, and other parts of the group in the UK have also emerged from receivership as independent companies, albeit after severe restructuring.

The biggest change to the industry – in Europe and in the US – was heralded by the planned merger of Volvo, already the world's second largest heavy truck maker, with Renault, the French state-controlled automotive group. Together they would have controlled around 26 per cent of the European heavy truck market and 23 per cent of the US market through their respective subsidiaries Volvo GM Heavy Truck and Mack.

The merger foundered, however, in the face of a revolt by Volvo shareholders and senior management, which had fundamental concerns about the valuation of the Swedish group and the holding of a "golden share" by the French state.

The two companies have dissolved the 3¼-year-old alliance and last month completed the break-up of the 45 per cent cross shareholdings in their respective truck and bus operations.

Both groups have been forced to develop alternative strategies to replace the alliance, although Karl-Erling Trogen, president of Volvo Truck, insists that "the industrial idea behind the merger is still valid. I foresee the need for different kinds of partnerships in the future to get economies of scale in industrial production," he says. "The business approach has not changed."

The leading European truck makers dominate the world heavy truck market. Mercedes-Benz of Germany, the world's largest truck and bus maker, and Volvo both have substantial operations and market shares in Europe and in north and south America, while Scania of Sweden is the market leader in Brazil as well as the most profitable of the truck makers in Europe.

The European producers are now seeking to broaden their operations by establishing a stronger presence in Asia, where the industry is still dominated by the leading Japanese truck makers, Hino, Isuzu, Nissan Diesel and Mitsubishi Motor.

Volvo is seeking to establish a joint venture in China with the aim of adding a production centre in Asia to its three existing regional truck manufacturing operations in Europe and north and south America. It has also launched a feasibility study into establishing production in India.

According to Mr Trogen, Asia is Volvo's "number one priority" for the geographic expansion of its truck operations. It has entered a feasibility study with China National Heavy Truck and Shandong Automotive for the establishment of joint ventures for the production of both trucks and components in Shandong province south-east of Beijing and is now awaiting official approval for the project from the Chinese authorities.

Mercedes-Benz is negotiating two ambitious joint ventures in China for the production of heavy trucks, and buses and coaches. It is conducting a feasibility study with Yangzhou Motor Coach Manufacturing (YMC), the biggest Chinese bus and coach producer, for the formation of a joint venture with the target of producing up to 12,000 bus chassis and 6,000 large coaches a year.

Global expansion is also causing other changes in strategic approach.

This year Mercedes-Benz started production in Indonesia of a new range of light-duty trucks and buses. The project marks a drastic change in the German group's approach to developing new vehicles for the global commercial vehicle market, as it seeks to overcome the disadvantage of its high domestic cost base.

The MB 700 range of light-duty trucks (7.5 tonnes gross vehicle weight) has been developed to meet Asian cost levels using a system of global sourcing of components.

Engines for the vehicles will be assembled in Indonesia from components produced by Mercedes-Benz's commercial vehicle subsidiary in Brazil. Transmissions and front axles are to be supplied by Tata Engineering and Locomotive (Telco) in India, while the rear axles will also come from India from AAL, a licensee of Rockwell, the US automotive components supplier.

Brakes and shock absorbers will be supplied from India, propeller shafts will be made by Spicer in the US, Mercedes-Benz Argentina will supply the mechanical steering system, optional power steering will come from Koyo in Japan, while cab parts will be supplied by Mercedes-Benz's Spanish subsidiary.

"The supply of major components from a country with high wage levels like Germany could not satisfy the cost target. New ways had to be found," says Klaus-Dieter Vöhringer, Mercedes-Benz components production director. "Commercial vehicle concepts in the Far East and Europe differ considerably, not only in dimensions but more so in the cost structure. The market requirements in Europe cause a cost situation that is unacceptable to customers in south-east Asia."

Such global initiatives promise gradually to remove the existing marked regional distinctions in the world truck industry, which have tended hitherto to limit the amount of global competition between regional product concepts.

European and Japanese truck makers generally develop and produce their own principal driveline components – engines, gearboxes and axles. In North America, by contrast, the truck makers concentrate chiefly on assembly, while engines, gearboxes and axles are bought in from component makers.

At the same time Japanese and Asian truck development has been influenced by the geography and infrastructure of Japan. Shorter distances, lower average speeds and lower gross vehicle weights mean that trucks are generally smaller in Japan.

Such regional differences have so far prevented Japanese producers from competing significantly in the European and North American heavy truck and bus markets, and the US overseas presence is also limited.

The leading European producers have made the strongest efforts at overcoming such regional hurdles, and Asia is the new target for global expansion.

Europe: finally emerging from four years of recession, says **Kevin Done**

Industry looks forward to significant growth

The west European truck industry is finally emerging from four years of recession, although the recovery remains hesitant. Demand has picked up strongly in markets such as those in the UK and Scandinavia, but these increases have been offset by the continuing weakness of sales in Germany and Italy.

The pattern of the recovery has led to a wide divergence in the performance of individual European producers, with some groups such as Mercedes-Benz, Iveco, and MAN still struggling to emerge from losses in Europe, while others such as Volvo and Scania, the two Swedish truck makers, are already experiencing a spectacular jump in profits.

Truck sales in western Europe (above 6 tonnes gross vehicle weight) began to fall in 1990 from a peak of 296,000 in 1989, and the decline became precipitous in 1993 with sales falling by 22.8 per cent to only 192,000, according to the latest report by DRI/McGraw-Hill, the UK-based automotive analysts.

During 1994, manufacturers have become increasingly confident that the worst of the recession has been passed, however, and producers are now forecasting several years of significant growth to the end of the 1990s.

According to the latest DRI World Truck Industry Forecast report truck sales (above 6 tonnes) are expected to rise by 3.9 per cent this year to 199,000, and demand is expected to strengthen in 1995 and 1996 with growth of around 10 per cent in both years. "Most national markets have joined the recovery process in Europe after the worst downturn on record," says the DRI report.

Western European truck sales are forecast to rise further in the second half of the 1990s to reach 272,000 by 1999, although this will still be below the 1989 peak.

The recovery has been led by the UK, which was also one of the first markets to fall into recession. In 1992, UK truck sales fell to 31,398, the lowest level since the mid-1950s, from a peak of 69,234 in 1989.

In the first 11 months this year UK truck sales (above 3.5 tonnes) have jumped by 23 per cent, following an increase of 15.8 per cent in 1993, and the industry is confident that this improvement will be sustained next year.

The sharpest contrast with the UK is provided by Germany, where sales accelerated to a peak in 1991 in the wake of reunification – offsetting the early onset of recession in markets such as the UK and France – only to decline abruptly in the past three years.

DRI forecasts that the "turning point could soon be reached" in Germany, too, however. The decline in truck sales eased further in the third quarter of 1994 with a year-on-year fall of 6 per cent, leaving sales in the first nine months 10.1 per cent lower than in the corresponding period a year ago.

By contrast with the hesitant recovery in overall sales across western Europe, truck production has recovered strongly with DRI forecasting a rise of 18.1 per cent to 251,000 following the drop of 27.2 per cent last year.

Output was depressed last year by low demand and by excess stocks. By 1994, the heavy constraint of surplus stocks had been removed, however, and truck makers have also been gearing up to meet stronger levels of demand not only in Europe but also in overseas markets, in particular in Latin America and Asia.

Against this background the two Swedish truck makers, Volvo and Scania, have benefited most with their competitiveness enhanced by the weakness of the Swedish currency, as well as by the tough restructuring measures taken during the recession.

Scania, the specialist heavy truck maker (16 tonnes and above), increased its truck and bus sales worldwide in the first nine months by 26 per cent to 23,500 from 18,400 in the corresponding period a year earlier. The volume of its order bookings rose by 61 per cent during the first nine months to 29,100 trucks and buses from 18,100, while operating income recovered to SKr2.448bn from only SKr311m a year earlier.

A similar transformation has been achieved by Volvo Truck, where operating profits in the first nine months surged to SKr2.697bn from only SKr183m a year earlier.

Daf, the Dutch truck maker, which collapsed into receivership in early 1993 as the most notable victim of the recession, is also regaining some lost ground, after its heavy truck operations in Holland and Belgium were rescued by the Dutch and Flemish governments. In the first six months of this year it achieved a net profit of Fl39.2m.

Since the rescue in March 1993 it has been able to increase its workforce from 3,500 to 4,200 with production at its Eindhoven plant up by more than half compared with 1993. It has recently taken on about 200 temporary production staff at sites in the Netherlands and Belgium in response to rising demand.

With the continuing weakness of the German market, Mercedes-Benz and MAN Nutzfahrzeuge, the leading German truckmakers, have taken longer to emerge from recession.

Mercedes-Benz's commercial vehicle operations are expected to suffer an operating loss for a second year in succession in 1994, according to Bernd Gottschalk, managing director of the group's commercial vehicle division. However, he forecasts a return to profit in 1995.

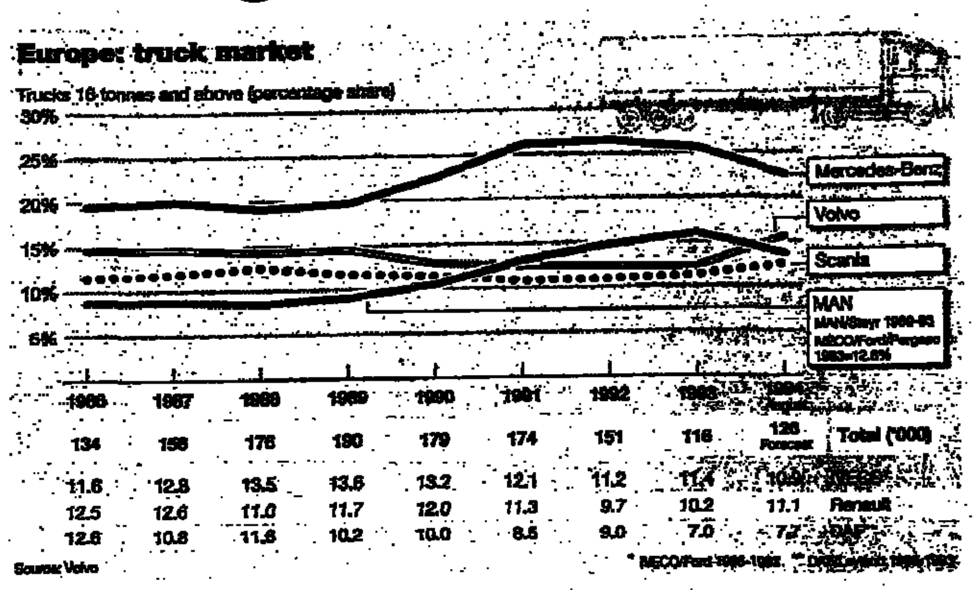
MAN suffered a pre-tax loss of DM80m in its latest financial year to the end of June, but the company is also forecasting a return to profit in the current year. Its profitability has declined sharply during the past three years with the 1993/94 loss following pre-tax profits of DM61m in 1992/93 and DM506m in 1991/92.

The company has restructured under the pressure of recession, and Rudolf Rupprecht, chief executive, says the group has again been operating profitably in recent months. It forecasts vehicle deliveries in the current financial year will rise to 37,000-38,000 from 33,000 last year.

Despite the start of recovery this year Helmut Werner, Mercedes-Benz chief executive, warned recently that the European truck industry was still facing "enormous excess production capacity", which was likely to grow further due to productivity increases. Current output of trucks (above 6 tonnes) was using less than 80 per cent of the available capacity in the industry, he said.

"The consequences are highly aggressive competition and a battle over prices and conditions which continues to cause serious problems," he said.

Part of Mercedes-Benz's response to this pressure is a plan to reduce radically the share of in-house production in its commercial vehicle operations, which is to be cut from 42 to 36 per cent.



Profile: VOLVO

Far-reaching global expansion plan

Volvo, the Swedish car and truck maker, has faced testing times in the past 12 months since the collapse of its planned merger with Renault of France.

The group, the world's second largest heavy truck maker (above 15 tonnes gross vehicle weight) behind Mercedes-Benz, has been developing a much more aggressive strategy to expand its automotive operations and to divest non-core operations as it prepares for an independent future.

The 45 per cent cross shareholdings with Renault Véhicules Industriels have been dissolved, and Volvo has been working on plans to increase its share of the world truck market alone, rather than in an alliance with the French truck maker. Renault's 45 per cent holding in Volvo Truck was acquired for FFr4.5bn late last month.

Volvo is now poised to embark on a far-reaching expansion of its truck operations in Europe and Asia. The ambitious moves include the development of a new range of trucks to allow it to enter the European light truck market for the first time.

As a crucial part of this strategy it is planning:

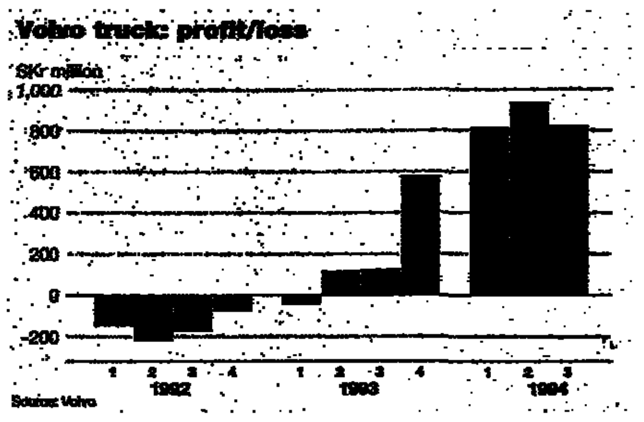
■ To expand the capacity of its heavy truck operations in Europe by up to 20 per cent by mid-1996, with the investment of more than SKr1bn ($140m).

■ To develop a range of light trucks (7.5 tonnes gross vehicle weight) to allow it to challenge for the first time established rivals such as Mercedes-Benz, Iveco, MAN, Renault and Daf in this segment of the European market.

■ To establish a joint venture in China with the aim of adding a production centre in Asia to its three existing regional truck manufacturing operations in Europe and North and South America. It has also launched a feasibility study into establishing production in India.

Volvo is leading the European truck industry's emergence from recession helped by several factors including the weakness of the Swedish krona, the successful launch of a new range of heavy trucks and its large share of those European truck markets with the strongest growth such as the UK and Scandinavia.

Production of its Volvo brand trucks, chiefly in Europe and in Brazil – it currently sells under the WhiteGMC brand in North America – is running at an annualised rate of 45,000 a year, an increase of more than 60 per cent from fewer than 28,000 a year in the depth of the recession in mid-1993.



Volvo's share of the west European heavy truck market has jumped to 15.5 per cent this year from 12.1 per cent in the whole of 1993, and the company's truck operations *are operating at the limit of* their capacity in Europe.

It increased its deliveries of trucks by 38 per cent in the first nine months this year to 49,400, and its order book for heavy and medium-heavy duty trucks at the end of September was nearly double the level of a year earlier.

The losses of 1992 and early 1993 have been overcome thanks to a combination of tough restructuring and cost-cutting and a strong recovery in demand. The truck division has closed one truck plant and one bus plant, has cut the workforce by 19 per cent with the reduction of 4,700 jobs and has concentrated its spare parts operations.

Volvo claims that new product development processes that are being put in place will cut lead times from the 60 months for previous truck programmes to an estimated 36 months in future.

In the first 9 months this year operating profits for Volvo Truck surged to SKr2.697bn from only SKr183m in the corresponding period a year earlier.

Volvo is already investing SKr390m to raise truck capacity from 45,000 a year to 50,000 (excluding North America) by July next year. The Volvo board is expected to approve soon the investment of more than SKr1bn to raise capacity further to between 55,000 and 60,000 a year by mid-1996.

Volvo's plan for entry into *the European light truck market* will also be completed in coming months. It is expected to adopt a strategy of purchasing the main components such as engines, gearboxes and axles from outside suppliers, and negotiations on supply contracts are likely to begin in early 1995. Annual production

The losses of 1992 and early 1993 have been overcome thanks to tough restructuring

capacity is expected to total well in excess of 10,000 a year.

According to Karl-Erling Trogen, president of Volvo Truck, Asia is Volvo's "number one priority" in the geographic expansion of its truck operations. It has launched a feasibility study with China National Heavy Truck and Shandong Automotive for the establishment of joint ventures for the production of trucks and components in Shandong province south-east of Beijing.

Mr Trogen says that Volvo is waiting for approval from Beijing. Production could rise to around 20,000 a year over six *to seven years and Volvo is* "looking at the investment of billions of kronor".

The group is also establishing a greater presence in east Europe with the establishment of a small volume truck assembly plant in Poland. The facility, which will be located in Wroclaw, will have a capacity to assemble up to 1,000 heavy and medium-duty trucks a year.

The decision to establish a wholly-owned plant follows the failure of its collaboration plans with Jelcz, the Polish truck maker, which had begun to assemble Volvo trucks this year.

The Swedish group is moving equipment, tools and personnel from the Jelcz facilities to its new plant in Wroclaw, where it is planning to produce more than 700 trucks in 1995. It is the leading importer of heavy-duty trucks to Poland and expects to deliver around 550 this year. It has established a new marketing and finance company during 1994, and has a network of 10 dealers selling exclusively Volvo vehicles.

Volvo is also seeking to expand its truck activities in North America and is invest*ing $200m in the next five* years to modernise its US heavy truck operations. It is building a new cab assembly plant and a high-volume paint shop close to its existing truck assembly plant at Dublin, Virginia, with operations due to begin in 1997.

Volvo's US heavy truck operation, Volvo GM Heavy Truck, is owned 87 per cent by the Swedish group and 13 per cent by General Motors of the US. It has sold its trucks hitherto under the WhiteGMC brand name, but this is to be replaced by the Volvo brand name, as new products are introduced.

Production capacity at the Dublin truck assembly plant is to be increased by 20 per cent by the end of 1995 to 72 trucks a day from the present capacity of 60 a day. The facility is being developed as Volvo GM Heavy Truck's high-volume production operation in the US.

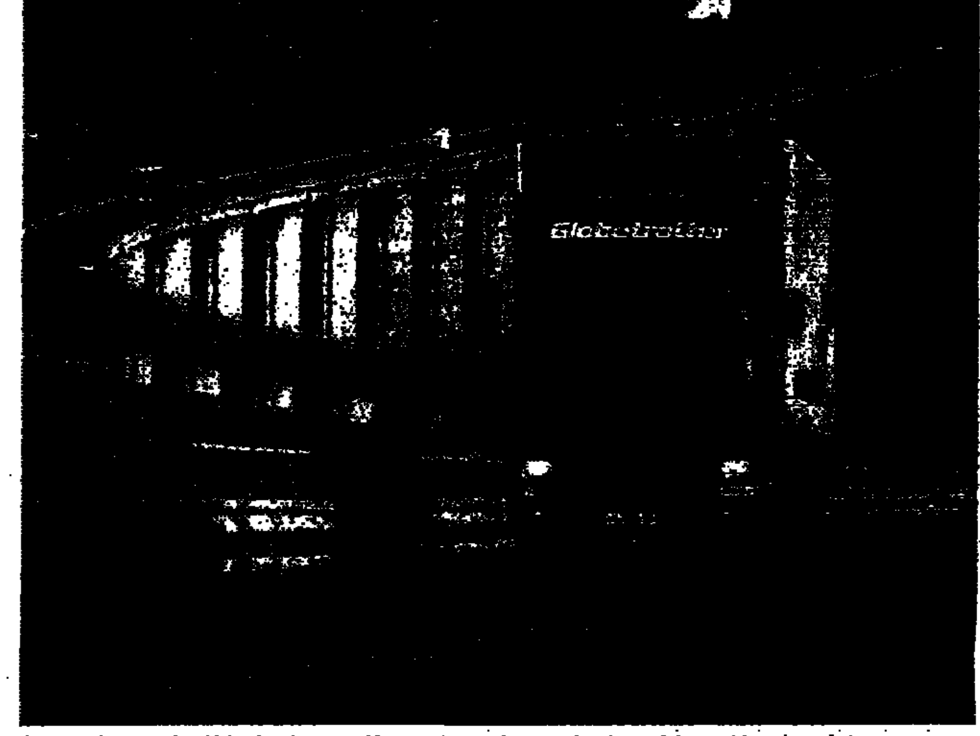
The cab assembly plant will have an initial capacity to produce 70 cabs a day, but this will be increased later to 110 a day, and the Dublin facility will also supply cabs to Volvo GM's other truck assembly plant at Orrville, Ohio.

The investment in the US production facilities is part of the ambitious modernisation of Volvo's heavy truck range, which began last year with the launch of its new FH series of heavy trucks in Europe after a seven-year, SKr6.5bn development programme.

The group is planning for the first time to integrate its US-built trucks with its European-built products, and is aiming eventually to achieve as much as 30-40 per cent commonality of components, excluding the driveline of engine, gearbox and axles. Mr Trogen says that Volvo also plans to supply around 25 per cent of its US trucks with its own engines in the next two to three years compared with a current level of around 15 per cent.

Volvo GM Heavy Truck is in fourth place in the US market with a share of around 12.3 per cent behind Mercedes-Benz (Freightliner) with 24.2 per cent, and the US producers Paccar (22.3 per cent) and Navistar (18.9 per cent).

Kevin Done



Globetrotting exercise: Volvo has been working on plans to increase its share of the world truck market

Profile: RENAULT VEHICULES INDUSTRIELS

Putting on a brave face

Jilted at the altar at the end of last year, Renault VI, the trucks and buses arm of the French state-owned motor group, is putting a brave face on life after its failed merger with Volvo. "We lost a big opportunity, but we remain very confident," says a spokesman for the company.

Optimism is made easier by the rebound in the European truck market which is pulling out of the severe recession of 1992 and 1993. But revival in the market, which still remains well below its peaks of the late 1980s, may mask, rather than resolve, the longer-term strategic challenges facing the French group.

In the short term, the target is a return to profitability. After suffering losses of FFr1.4bn in 1993, the company aims to report an operating profit for 1994 and to move back into the black at the net level next year. The revival is based on three factors, stronger sales in Europe, particularly in France, continued strength in the US market where Renault VI is present through its Mack subsidiary, and further cost-cutting and productivity measures.

In France, the company expects sales of about 34,000 vehicles this year, compared with 28,000 in 1993 and an average of about 40,000 over the past 20 years. For Europe as a whole, sales of trucks above five tonnes are expected to reach 210,000 this year, compared with 203,000 in 1993. The upturn is confirmed in the company's order books which saw a rise of more than 30 per cent for Europe in the first nine months of the year.

Maintaining market share has, however, proved a struggle. In France for example, Renault VI's share slipped slightly to about 42 per cent for the January-September period, partly because of the price advantage gained by its Swedish rivals as a result of devaluation last year.

In the US, Mack has steadily strengthened its performance. Acquired in 1990, the company returned to profitability in February and is benefiting from a vibrant market. Total sales in the US of Class 8 trucks, which are more than 15 tonnes and comprise Mack's principal products, should reach a record level of 220,000 this year.

The turnaround at Mack is

'We lost a big opportunity, but we remain confident,' says a company spokesman

not just the result of a buoyant market. It also reflects the benefits of restructuring measures which have seen the workforce fall from 26,000 in 1987 to below 6,000 today. Similarly, the number of employees in the company's European operations has been reduced from about 35,000 to 20,000.

The cost-cutting and efficiency gains are aimed at enabling the company to remain in profit through the next industry downturn. It is a tall order, which requires further progress towards economies of scale in manufacturing and the reduction of development cost.

Renault VI sees the solution in terms of an expansion of specific alliances, rather than a grand merger à la Volvo. "A big marriage would be very difficult," says a spokesman for the company, citing the lack of appropriate partners. Iveco, for example, the trucks division of Fiat, is seen as too similar. Both companies have a strong presence in southern European markets and a virtually identical model range.

Some steps towards more modest partnerships have already been taken. In July, Renault concluded an agreement with Iveco, under which the two companies will co-operate in the manufacture and development of cabins. For Renault VI the deal concerns its 3.5-tonne and 6-tonne Messenger vehicles. With Volvo, a joint project to develop rear axles has survived the divorce.

Renault VI also sees scope for production economies within the group. In particular, there are plans to develop co-operation with Mack in the development of motors and, possibly, suspension and brake systems.

Are such measures enough? For Renault VI, the response is positive. "We have no handicap linked to our size," says Shemaya Levy, who took over as chairman at the beginning of the year.

Officials at the company point to the progress made in improving profitability and the benefits of having a strong US presence. "The US market has now moved largely out of phase with the European market," says a company official. "So there is a compensating, anti-cyclical effect which smoothes earnings."

As for the prospect that Renault VI could be spun off from the parent company or that Mack could be sold, the answer is clearly negative. "Mr Schweitzer has emphasised that Renault VI is a core element of the group's business," the company says. "Mack is an important element of our strategy."

Some industry observers, however, remain guarded about the company's post-Volvo prospects. "It is still an open question whether Renault is big enough to survive long term without some substantial partners," says a motor industry analyst at one Paris merchant bank. "Volvo was the ideal solution, in terms of product range and geographical spread and Renault will find it that much harder to find the financial resources to revamp its model range on its own."

John Ridding

Profile: ERF

Minnow bucks trend

The collapse of the UK's truck market in 1990 was the worst since the second world war. Continental European markets suffered a similar collapse in 1992 and throughout last year. In these conditions, industry minnows such as ERF are not supposed to be able to survive the savage discounting and other market pressures exerted by the leading manufacturers.

ERF's production peaked at 4,319 in the 1989 surge and subsequently fell to only half this level, from which it is still recovering.

Yet once again ERF and its chairman, Peter Foden, have come striding relatively unscathed through the recessionary rubble, whereas the remains of much larger DAF have had to be resurrected from receivership and another UK truck-maker, AWD, has fallen subject to a takeover.

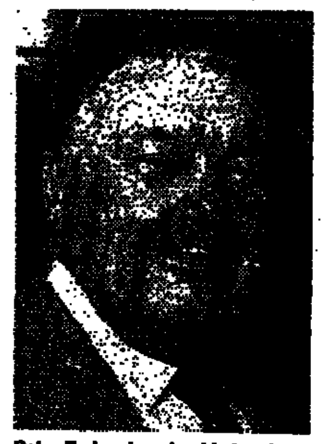
ERF, the UK's last publicly-quoted independent heavy truck maker, made a profit of £453,000, after interest payments, in the second half of last year. This was not sufficient to offset a first-half loss and for the full year to April 2 there were pre-tax losses of £26,000. However, this was still a significant improvement on the £4.12m loss of 1992.

"Margins are still pretty difficult but volumes are now rising and exports outside Europe, particularly to south and west Africa, are looking up," according to Mr Foden. "We are now making 15-16 trucks a week, compared with 10-11 at the start of the year."

The claimed break-even level is 10-11 units a week.

"Five or 10 years ago, everyone was saying that by now ERF would have disappeared or become just part of a big group. It hasn't happened because I think we have a loyal UK market; the product has been well accepted after being standardised around the Cummins (engine), Eaton (transmission) and Rockwell (axle) drivelines; we have spent money on developing new products and other improvements throughout the recession, and have a strong balance sheet."

There is an element, too, of "keeping your head down and being a bit stubborn", adds Mr Foden, a stocky figure with that blunt manner of speech popularly considered archetypical of a northern entrepreneur. The business has its headquarters in Sandbach, Cheshire.



Peter Foden: keeping his head down and being a bit stubborn

The production increase has meant that, after a long period of retrenchment which saw ERF's work force halved to 750, recruitment has begun again. About 150 jobs have been added this year.

With a slow but steady recovery continuing on the continent, Mr Foden expects production to rise further, to 20-21 a week, over the next year or so. However, this would still be well below the 30-a-week single-shift capacity which has been created through a restructuring of operations for greater efficiency. Cab production, for example, is now carried out at separate facilities in nearby Middlewich.

During the past two years ERF has made its first substantive efforts to establish a continental European sales and servicing network, starting with France and Spain. It now has 18 French and eight Spanish distributors, although the truck market recession in both countries has meant that sales have been slow and ERF has yet even to launch on the Continent left-hand-drive versions of its EC range, the development of which has accounted for the largest portion of a £14m investment programme kept up throughout the recession and during nearly four years of losses.

The EC trucks, covering the 15 tonnes-plus market sectors in which the company specialises, will be launched in Europe next year, according to Mr Foden. He maintains that as ERF's distribution network spreads throughout the region, "there is no reason why we should not capture around 2 per cent of our sectors of the European truck market". That would require extra production of around 1,500 trucks a year.

The next countries in line are Portugal and the Benelux states.

ERF exports 15-20 per cent of its production by value. It has an assembly plant in South Africa where the truck market is already benefiting from the post-apartheid "peace dividend".

Despite an active leisure life which includes competing in his Aston Martin racing car, Mr Foden says he has no intention of stepping back from the chairman and chief executive's role in the foreseeable future.

"My excitement and satisfaction comes from being in the office and running the business – it's much more fun than sitting on a bench in the sun all day."

John Griffiths

Buses: **Eric Gibbins** looks at the rationalisation taking place in the sector

Mercedes move spurs market realignment

Fierce competition in European bus manufacture is leading to reorganisation and rationalisation. As a result, the past 12 months have seen extensive activity in this sector. The forecast, back in July, by Helmut Werner, president and chief executive officer of Mercedes-Benz AG that a realignment in the bus market was in prospect has since been proved correct. In fact, Mercedes has had a hand in it.

Subject to European Commission approval under its cartel law, January 1, 1995, sees the start-up by Mercedes of a new company to control its bus and coach operations. This move by the world leader in bus and coach manufacture is arguably the most significant of the action plans of European bus manufacturers to get their industry back on track.

In his July comment, Mr Werner said that the market had become so small that adequate capacity utilisation was no longer ensured for all manufacturers. Anyone trying to prevent the introduction of measures designed to safeguard the industry's future refused to acknowledge reality. Mr Werner emphasised that individual companies had for some time been unable to influence what was happening in this market. The market's development in the foreseeable future and the competitive situation could not be ignored.

Mr Werner disclosed that the new company would consist of Mercedes-Benz's bus and coach activities in Mannheim and its operations in Turkey. It will also include Kässbohrer, the family-owned bus and coach manufacturer, which had then just been acquired by Mercedes. The aim, he said, was to form a medium-sized company "to improve customer proximity and efficiency in what is a difficult market".

The plan is for Kässbohrer (with its production sites in Ulm, Neu-Ulm and Ligny in France) and the Mannheim plant of Mercedes to constitute the industrial line of a future European bus company

With traditional markets proving weak, the main bus manufacturers are looking east

together with Mercedes-Benz Türk, which also manufactures complete buses.

Once, the new company is in place, buses are to be distributed in a dual-trademark strategy combining Kässbohrer and Mercedes-Benz, but keeping the Kässbohrer trademark, Setra.

A fall-out from the Mercedes/Kässbohrer deal was the acquisition by Volvo Bus of Kässbohrer's Danish body-building subsidiary, Aabenraa Karosserifabrik, which builds bus bodies in aluminium mainly on Volvo chassis.

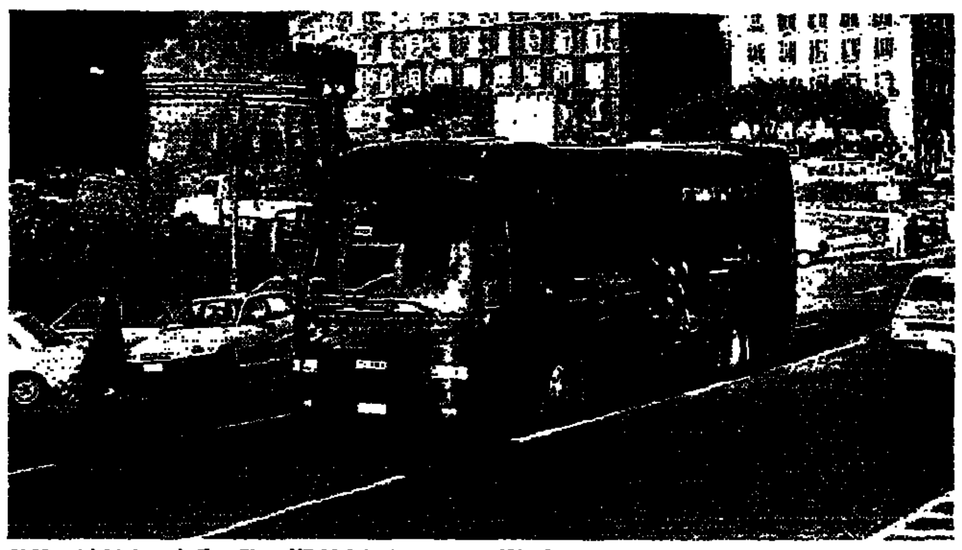
The difficult times experienced by the bus industry in Europe came to a head towards the end of 1993 when the United Bus Group in Holland filed for creditor protection. The members of the group – DAF Bus, Den Oudsten and Bova in Holland, DAB in Denmark, and Optare in the UK – were all affected by this. However, management teams at Den Oudsten, Bova and DAF Bus quickly made successful moves to buy out the Dutch companies with similar Danish and British teams moving in at DAB and Optare.

DAB's stay with the management team was short-lived when Sweden's Scania Bus Division acquired the Silkeborg-based company. Said Scania: "DAB will continue production of its current product range, which includes a low-floor bus and a flexible, somewhat smaller service bus. Long-term, Scania's and DAB's product ranges will be co-ordinated and replaced with a jointly-developed bus range."

The summer saw takeover fever. Apart from the Kässbohrer and DAB moves, Sweden's Volvo announced its acquisition of Drögmöller, the German quality coach bodybuilder, while Berkhof, the Dutch bodybuilder, announced the purchase of the bus and coach operations of Belgium's Jonckheere Bus and Coach. Volvo was already using Drögmöller to build bodies on its latest coach for the German market – the B12/5000. This reflected a co-operative deal between Volvo and Drögmöller involving product development and the marketing of complete coaches.

The reason given for the purchase by Berkhof of Jonckheere was that the Jonckheere family, the existing shareholder, wanted to involve itself more in other Jonckheere companies. Berkhof pointed out that survival had been increasingly difficult for small bus construction companies. It predicted more and more amalgamations. As a result of the acquisition, the new group has a yearly production capacity of about 1,000 large buses.

The takeovers have meant the loss of some joint ventures. A notable casualty, for example, has been the deal, struck just 12 months ago, between Iveco and Kässbohrer to design, produce and sell new 12m and 10m city bus and articulated bus ranges. These were to be introduced at



At Maastricht, Iveco's EuroClass HD highdecker won the 1995 Coach of the Year award

Iveco's Valley Ufite plant in Italy and at Kässbohrer's plant at Ligny in France.

One joint development programme that has survived is that between Volvo and Renault at the Heuliez Bus company in France in which both the Swedish and French companies each continue to hold a substantial (37.5 per cent) interest.

There are, too, some companies that are beating the European bus recession. The most notable concerns a British company, Dennis Specialist Vehicles of Guildford. This long-established bus builder (1995 is its centenary year) is recording record sales – more than 1,100 buses will be built this year (1994) and next year the target is 1,400. This does not include several hundred bus kits for export.

With traditional western European markets proving weak, the main bus manufacturers have continued to look east. Scania has just announced that it has started co-operating with a Russian consortium to build bodies and market buses in Russia, using chassis from Sweden. RussScan is the name of the company involved.

This Scania move followed an earlier agreement in Riga, Latvia, for Scania bus assembly by AutoSkan, Scania's Latvian importer. This development occurred at the same time as a deal by Volvo Bus with a company called Sokol in Ekaterinburg (Sverdlovsk) to build some 300 Volvo-based buses a year in that locality.

Another company to develop in eastern Europe is the German bus builder, Neoplan. A letter of intent was signed in the summer with Russian interests for Neoplan 15m buses to be built under licence and operated in Moscow.

This joint venture involves Autobus Zil and the Moscow Committee for the Management of State Property. Buses will initially be built at Neoplan's Pilsting plant in Germany by a team from Zil. Manufacture will later be shifted to Moscow, mainly using components supplied from Germany. The long-term aim is for Zil to build 1,000 Neoplan buses a year.

Neoplan also started building coaches in Hungary early in the year providing competition for the main domestic manufacturer, Ikarus, which itself has been heavily involved with western component manufacturers, including Detroit Diesel, Perkins, DAF components, and Cummins on the supply of engines. Renault VI is the latest to become active in this sector with the supply of power units to the LVOV bus plant in the Ukraine.

Renault VI's biggest involvement in eastern Europe is in the Czech Republic where this year it has been integrating its product into vehicles of Czech bus maker, Karosa, which the French company partly owns.

Transport deregulation in the European Union: **Charles Batchelor** reports

Many barriers swept away

The liberalisation of the European road haulage industry has made great strides in recent years. Many of the barriers in what was once one of the most highly regulated sectors have been swept away.

A progress report to the European Commission on the deregulation programme published in July concluded that for the most part the liberalisation process was producing benefits for the continent's economy.

"Given the importance of road haulage to the success of the economy . . . the sector must continue to operate in as competitive a manner as possible," the 10-strong committee of inquiry said.

Where problems had arisen, the committee noted, they were attributable to adverse economic conditions and the difficulties caused by the transition to a freer transport climate.

These conclusions came as a relief to organisations such as the UK's Freight Transport Association (FTA), representing 12,000 companies which make use of road haulage as well as the hauliers themselves.

"The report tended to confirm that liberalisation was a good thing," said Chris Welsh, the FTA's Brussels representative. "It confounded the critics who were claiming there was a crisis in road transport."

But there has been considerable change in the shape of the industry. In countries where previously highly-controlled markets have been deregulated the number of hauliers has increased sharply. In France, the number of companies rose by 28 per cent between deregulation in 1986 and 1990 while in Ireland the number of operators quadrupled in the seven years to 1993.

In countries with long-established liberal haulage regimes such as Belgium, the UK and Sweden the number of operators has remained stable, the

For the most part the liberalisation process is producing benefits for the continent's economy

progress report said.

In all markets small businesses continue to predominate, though a relatively small number of the most active operators usually accounts for a disproportionate market share.

In the UK, for example, 10 per cent of hauliers operate 60 per cent of the vehicle fleet.

Two areas were highlighted by the committee as being of particular concern, the need for "a framework of harmonised standards to ensure fair competition" and a stricter enforcement of the standards which already exist. "Unauthorised and illegal operations are a major distortion for the market and need to be addressed urgently," the report said.

The committee saw the greatest need for further harmonisation in the area of qualifications for entering the transport profession, taxes and other charges and working conditions.

This struck a chord with the Road Haulage Association, representing 10,000 UK hauliers.

It has long taken the view that "the single European market in haulage was failing to adjust quickly enough and uniformly to the liberalisation enshrined in the Treaty of Rome".

The inquiry committee called for a study to be made of the training methods and professional examinations in use throughout the European Union.

It called for the establishment of a union-wide organisation to see that standards were met. "Training should include subjects such as information technology, financial management and safety, it said.

It also called for a uniform standard to be set for the financial standing of haulage businesses. Present diverse levels in use throughout the union should be increased until they reach a uniform standard, the committee said.

This particular proposal was less acceptable to organisations such as the FTA in a UK climate where government has attempted to reduce the amount of red tape burdening business.

"We are concerned that people would pick up the negative points of the report which refer to access to the profession," said Mr Welsh. "We argue that we have adequate standards in Europe."

But there is strong British support for the idea of greater harmonisation on the level of charges imposed on transport businesses.

Haulage operators travelling to or through Belgium, Denmark, the Netherlands, Germany and Luxembourg will have to pay a £1,000 annual motorway tax per vehicle from next year.

Although operators based in these countries will also have to pay these charges they are expected to receive a rebate on their vehicle excise duty to compensate. Rebates have already been agreed for German and Danish hauliers and are proposed in the other countries.

There will be no corresponding charge made by other EU member countries although France, Spain and Italy already charge tolls on their motorways.

The result will be that British hauliers will pay for motorway use in most EU countries while non-UK operators will have the free use of Britain's roads.

On the subject of enforcement the committee of inquiry called for urgent action. "Lack of enforcement . . . is perhaps the single greatest problem facing the [transport] sector," it said.

It called for the application of information technology to produce documents which are better protected against fraud and abuse; the sharing of information between different regulatory organisations and countries; and the more efficient monitoring of vehicle and container movements and drivers' hours.

On-board computers could be used to maintain both driver and vehicle records while, in future, roadside controls should be replaced with automatic roadside reading of on-board records.

The committee also made a controversial appeal for the impounding of vehicles when

There is strong support for greater harmonisation on charges imposed on transport businesses

there had been a serious infringement of the regulations. Impounding is standard policy as a means of controlling unauthorised parking in towns but it would be more problematic, and involve greater costs, if applied to international commercial vehicle movements.

It also urged that shippers should be made jointly liable with hauliers for any infringements of EU regulations. At present it is only in Ireland, Germany and Spain that shippers can be made liable if they employ unauthorised operators. The committee called for this to be extended throughout the EU.

Joint liability would also help to overcome the problem of legitimate hauliers who are picked up for carrying overweight containers or hazardous goods. The haulier usually does not know precisely what is in a sealed container and is at the mercy of an unscrupulous or unthinking shipper who may have loaded unauthorised goods or changed the details of the shipment.

Profile: IVECO

Award marks a turning point

For Fiat Group's Iveco commercial vehicles subsidiary, Maastricht is rather more than the quiet Dutch city where the European Union treaty was signed 2½ years ago. Although much less attention was paid to the Maastricht Bus Show at the end of October, it was nevertheless an important event for Iveco and for Europe's other bus and coachmakers.

At Maastricht, Iveco's EuroClass HD highdecker won the 1995 Coach of the Year award. Giancarlo Boschetti, Iveco's managing director, said that the bus sector was a core business of strategic importance to the company.

In spite of difficult market conditions over recent years, Iveco has continued to invest in the bus sector, developing new vehicles and its plant at Valle Ufita near Naples. The EuroClass HD, with its emphasis on safety, use of non-corroding materials, low fuel consumption and conformity to tight environmental standards, is a result of Iveco's commitment to the bus sector

Winning the award in Maastricht aptly winds up a year which has been a turning point for the company. After a particularly bleak period, results are at last improving. Announcing its half-year figures at the end of September, Turin-based Fiat was able to point to Iveco's sales of 50,700 units, 13.7 per cent up on the figures for January to June 1993. Revenues in lire were 17.6 per cent higher at L4,198bn.

Managers are confident that the company will break even this year. They describe this as an enormous turnround. This is an understatement given that Iveco, a Netherlands-registered company, recorded a loss of FL 592m ($339m) on sales of FL 8,437m last year. It was the second successive year of falling revenues and third successive year of losses.

The company expected a difficult year, but it turned out to be worse than anticipated. Indeed, Iveco was making losses at operating level, before financial charges, during the first part of 1993. Cash flow for the year was negative. At the year-end net financial indebtedness increased to FL 1,812m, approaching the level reached in December 1984 at the end of the previous recession.

It is a measure of the depths plumbed last year that Iveco's net sales were only 1.6 per cent higher than those recorded in 1984, while losses were 49.9 per cent higher. "The industry is feeling the effects of a pan-European recession which has lasted longer and bitten more deeply than anyone ever anticipated," the company commented in its report earlier this year.

In its Italian home market, where more than one in two of new vehicles exceeding 3.5 tonnes carries the Iveco badge and which absorbs more than one third of the company's European sales, Iveco's volumes fell by a quarter last year to 26,300 units. The company suffered steep declines in France (down 18.5 per cent to 10,600 units), Germany (down 13.8 per cent to 13,200 units) and Spain (down 42.9 per cent to 5,100 units).

Only the UK relieved an otherwise awful European situation. Iveco was able to benefit from the upturn in UK sales, beating the market's 7.8 per cent improvement by increasing its volume by 22.4 per cent. Sales of 9,000 units earned the company a 24.8 per cent share of the UK market for

Managers are confident that the company will break even this year. This will be a big turnround

commercial vehicles exceeding 3.5 tonnes.

Iveco's management notes that the company was particularly affected by the recession because the market collapsed when its investment programme was making heaviest demands. In its 1993 report, the company notes that the old ranges have been phased out leading to "complete renewal of the product range".

The EuroStar vehicles for long distance transport and EuroTrakker trucks for heavy duty quarry and construction site work were introduced last year. Earlier this year the EuroCargo range was joined by 4x4 vehicles for off-road uses. Iveco's EuroCargo range of medium and medium-heavy 6-tonne to 18-tonne vehicles, launched in 1991, won the Truck of the Year award for 1992.

The company stamped its name on the European truck scene the following year when it won the award again, the first constructor to win in successive years. On this occasion the award went to its EuroTech 18-tonne to 28-tonne medium-heavy to heavy range.

Research and development expenses reflect the efforts to renew the model range. From 1988 to 1992, annual expenditure was between FL 470m and FL 560m. Last year, expenditure dropped to FL 363m, though the fall in sales meant that research and development's share of revenues continued to be above 4 per cent.

Investment in plant and equipment has also made significant demands on Iveco's financial resources. When sales volumes and revenues peaked in 1989, the company's gross new fixed investment was also peaking, the FL 1,000m representing 8 per cent of net sales. Investment continued to weigh heavily in the following three years, but fell to FL 352m (just over 4 per cent of net sales) last year.

"The years of big spending designed to develop and to protect the business are behind us. The level of investment in fixed assets has been falling steadily since 1991 and has now been brought back into line with what was spent on average in the years between 1983 and 1988," the company noted earlier this year.

Acquisitions are also a matter for the record rather than a strategy for the future. Iveco undertook some important acquisitions between 1986 and 1992, including Ford of Britain and Seddon Atkinson in the UK, and Enasa Pegaso in Spain. Company managers say that no acquisitions are in sight, either short or medium term, though joint ventures are likely to be a pillar for growth outside Europe.

Parallel to its large investment programme, Iveco has been reorganising its operations. Production costs have been cut and break-even points lowered. Payroll has been slashed. Iveco had 41,300 employees on its books at year-end 1991; the figure was 33,700 at the end of last year and is still falling. White-collar and managerial staff have been most affected, reorganisation trimming their numbers from 16,000 in 1989 to 10,000 last year.

Lean and flexible are the watchwords. Rationalisation of internal procedures has helped to reduce overheads, as well as pushing responsibility lower down the hierarchy and encouraging workforce participation. At the same time, the company has been examining how improvements to structures can help the customer. A new figure, the field engineer, has been created, giving customers a direct link to the factory.

Iveco believes that it is well placed to take advantage of the economic upturn in Europe. The company is confident that its new models satisfy market demands, while efficient manufacturing systems allow tight control over production costs. Next year will not be easy, but managers forecast that it will much better than 1994, and that Iveco will return to good profitability.

David Lane

Regulation: **John Griffiths** discusses implementation of the new rules

High cost of new standards

Little more than a year after the European Commission's Euro I rules curbing exhaust pollution by heavy goods vehicles, Europe's truck makers are well down the road to overcoming the greater cost and other problems of a further phase of legislation – the much stricter standards of Euro II.

The Euro I standards became mandatory on October 1 last year. The Euro II standards, which require almost a halving of the Euro I emissions, come into effect on October 1, 1996, for all trucks in production at that time, and a year earlier for new designs of trucks.

However, already the steady trickle of new truck designs for which manufacturers have to obtain legislative approval – or homologation – are virtually all conforming to Euro II. The leading truck engine makers have, indeed, been increasingly launching Euro II-compliant engines for well over a year.

The industry has had relatively little technical difficulty meeting the Euro II standards, although the investment required in manufacturing and design changes has been substantial.

Masking out the fumes: manufacturers are already conforming to tighter rules curbing exhaust pollution which come into effect on October 1, 1996

"The problem has been one not so much of technical difficulty as of time," says Ron Armstrong, product marketing manager of Iveco-Ford.

More recent engines have been designed from the start to meet the Euro II standards, he points out. But other engines, designed earlier but which require further use to be financially viable, are needing more work to upgrade them to the standards. Even so, he estimates that his own company's ranges will be progressively brought up to Euro II levels by next spring.

The cost of compliance for each range can vary considerably, from a few pounds for modifying injector holes on recent units to up to £1,000 on complicated inter-cooled and turbo-charged engines.

In terms of costs to manufacturers, Mr Armstrong estimates that Iveco-Ford has spent some £1bn over its half-a-dozen engine ranges.

The standards, which apply to all engines above 150 kilowatts (brake horsepower) require a more than halving of carbon monoxide emissions to 4 grammes per kw (from 9 in Euro I), to 1.1 grammes/kw of hydrocarbons (from 1.7), 7 grammes of nitrogen oxides (from 11.5) and 0.15 of particulates (the cause of diesel "soot"), down from 0.36.

The petroleum industry is also being obliged to play a part in reaching these levels. Reaching the particulates target requires lower-sulphur fuels. Thus, under an EU-set timetable, the 0.2-0.3 per cent sulphur content usual in diesel fuels will have dropped to a maximum of 0.05 per cent by the time Euro II is fully effective. To cater for the first stage of the Euro II standards by October 1, 1995, at least 25 per cent of the diesel fuel available in EU member states must be below the 0.05 per cent ceiling.

Towards the end of the decade, theoretically in 1999, yet another tightening – Euro III – will be introduced, although EU member states have not reached sufficient of a consensus on what they should be for the European Commission to be able to publish a draft directive.

However, Mr Armstrong says he thinks it likely that they will closely resemble proposals drawn up by Germany.

These call for carbon monoxide levels to be cut to 2.0-2.8 grammes, hydrocarbons to 0.6-0.77 grammes, nitrogen oxides to 4.7-5 grammes and particulates to 0.1 grammes.

If adopted these would represent a much stiffer technological challenge to the industry, particularly since the test driving cycle – a simulated "typical" route – is also to be changed to reflect modern traffic conditions.

The current EU test cycle is a much-criticised slow speed one, still not reflecting that 80 per cent of the EU's goods are moved by truck across ever-longer distances along high-speed motorways.

Even so, companies such as Iveco, Volvo and Leyland DAF do not doubt the industry's ability to meet them – and hope they will be able to do so without having to resort to some technologies in which they do not wish to become involved. Notable among these is the particulate trap – to collect the soot-forming particles in a chamber off a more complex exhaust system, in order to burn them off when the vehicle is not in use.

They hope, but are by no means certain, that they will be able to meet even the Euro III standards with further refinement – mainly through increased electronic control – of high-pressure fuel injection and other engine management systems. For example, instantaneous adjustments can be made to fuelling quantity and timing in each injector, under the control of a central computer taking readings from various sensors around the engine. Exhaust gas recirculation (EGC), or passing exhaust gas back through the engine again for more complete combustion, is also likely.

That presumes that the final Euro III standards are not significantly tighter than the German proposals – "the German proposals are about the limit before going down these other routes," says Mr Armstrong.

Development of Euro III-compliant engines is well under way – not least because manufacturers think it likely that some countries may bring in financial incentives for operators to buy these "cleaner" trucks in 1998 or earlier.

Thus there is likely to be a repeat of the Euro II scenario, in which companies such as Iveco-Ford with its Eurostar truck range and Volvo with its latest FH ranges, launched Euro II-compliant trucks well in advance of the formal introduction of new emissions standards.

The other main area of legislation, noise, is proving rather more problematical.

Another EU directive is to go into effect on October 1 next year requiring a truck to emit a maximum of 80 decibels, measured by roadside microphones, when travelling at 50 kilometres per hour. The current maximum is 84 decibels, and although the reduction may not appear to be much, this is around a halving of perceived noise.

To meet the standards manufacturers are seeking a number of remedies, such as sound-deadening body panels, partial encapsulation of the engine and, as Mr Armstrong puts it, "exhaust systems like small dustbins".

Seattle-based Paccar's companies are assembling an average of 157 heavy-duty trucks a day

North America, heavy trucks: **Laurie Morse** looks at the road ahead

Good times roll on and on

The North American heavy truck industry is enjoying the biggest boom in its history, with 1994 production headed toward a record 205,000 units, and new order backlogs so vast that the good times for truck assemblers should roll straight into September 1995.

Experts say the industry is enjoying the peak of its cycle, with orders, tempered by rising interest rates, expected to taper off about 10 per cent next year, and another 15 to 20 per cent in 1996.

In the meantime, truck makers and their suppliers are struggling to meet demand. This is the sixth consecutive quarter that North American class 8 truck producers, led by Freightliner and Navistar, have operated at or above full capacity.

Although the cyclical recovery had been widely predicted, the extent of the surge caught producers by surprise, resulting in some production bottlenecks and a scramble by the leading truck makers to reposition production and labour to make the best possible use of available resources. Navistar, for example, added more than 600 workers this spring to meet demand, despite a long-term campaign to trim labour costs.

Most factories are working round the clock, and companies that make a variety of truck lines are retooling to place heavy truck manufacturing at their highest-capacity plants. Still, component shortages continue to restrain output, pushing production schedules to meet order backlogs, currently above 100,000 units, deep into 1995.

The situation is the first test of the American industry since the rigorous rationalisation in the mid-1980s. At that time, when demand was in a trough, North American truck production consolidated, with subsequent capacity reductions by truckmakers and their suppliers. Freightliner was purchased by Daimler-Benz during that period, while Mack Trucks became a property of Renault. International Harvester became Navistar, and sold off more than half of its businesses.

Since truck makers are essentially "screwdriver" companies that assemble components made by outside suppliers, the fates and capacities of truck and component manufacturers are closely linked. Some of the biggest winners in the gold rush are engine makers such as Cummins and Caterpillar and other leading truck compponent makers such as Rockwell and Eaton.

Ironically, even with the industry at an historic peak, investors are not bidding up truck industry shares. "Most of these companies are heavily discounted because of their cyclical nature, whether they deserve it or not," one analyst said.

"Many companies, including Cummins Engine, have worked hard to balance their businesses, with cyclical industries representing less than half of their sales."

Stark's Off-Highway Ledger, a Chicago-based newsletter that tracks the truck industry, reports North American heavy-duty truck makers are operating at 109 per cent of available capacity in the fourth quarter, manufacturing an average of 842 trucks a day. That compares with 743 trucks a day in the fourth quarter last year.

North American heavy-duty truck assembly

	Jan-Sep 1994	Jan-Sep 1993	% change
Freightliner	38,270	30,765	24.4
Navistar	29,500	27,150	8.7
Mack	18,790	14,590	28.8
Kenworth	18,520	17,525	5.7
Volvo GM	17,675	14,855	19.0
Ford	13,745	12,420	10.7
Peterbilt	13,225	11,915	11.0
Total	149,725	129,220	15.9

Source: Stark's Off-Highway Ledger

Of that total, the newsletter says Freightliner is assembling 214 units a day and operating at 129 per cent of capacity, and Navistar, under its International brand, is making 170 trucks a day with capacity at a strained 148 per cent. Mack, the third-largest North American heavy truck maker is assembling 118 trucks a day and is operating at 107 per cent of capacity.

Seattle-based Paccar, which owns Kenworth and Peterbilt, is North America's other big heavy truck producer. Combined, Paccar's companies are assembling an average of 157 heavy-duty trucks a day this quarter.

Industry leader Freightliner's sales are projected to be up 28 per cent this year at $3.9bn.

Navistar's sales are also surging, at $5.3bn, but high operating costs limited 1994 net income to just $82m.

David Healy, an auto and autoparts analyst with SG Warburg in New York, says the heavy truck boom has hit with such gusto for more reasons than a prolonged period of low interest rates and pent-up demand. "Truck traffic is very strong, and fleets of existing trucks are ageing," he says, "but even newer trucks are being replaced. There has been such engine innovation recently, in terms of environmental considerations and from the standpoint of fuel use, that it makes it smart to replace to get lower operating costs."

He says that just-in-time inventory procedures adopted by a vast number of US companies over the past decade have also boosted truck traffic. "It seems that what used to be kept in the warehouse is now kept rolling on trucks," he says.

In fact, the volume of heavy truck orders serves as a leading economic indicator for some analysts. "Truck volumes precede the economy by three to six months," says John Stark, editor of the Off-Highway Ledger. "Since heavy trucks carry volumes of goods from one part of the country to another, they reflect early changes in the economy."

Truck company executives fear that if the US tightens interest rates any further, it will lead to a flood of order cancellations late this year. However, to date there has been little sign of order slowdowns.

Profile: NAVISTAR

Barely making a go of it

While most North American heavy truck manufacturers are hauling away big profits this year, enjoying the biggest production surge in the industry's history, Chicago-based Navistar is barely making a go of it, with its truck and engine-making operations still mired under burdensome operating costs.

Once carrying the world-class nameplate of International Harvester, the company changed its name to Navistar when the Harvester logo and its agricultural equipment operations were sold to the J.I. Case division of Tenneco in 1985 as part of a debt-reducing restructuring.

While still North America's top producer of medium trucks, and the number two producer of heavy trucks and diesel engines, Navistar, one of the few independent truck makers left in America, has teetered so long on the brink of solvency that securities analysts still rate the company as a highly speculative investment.

With its factories operating at nearly 110 per cent of capacity this year, the company had net income of $82m on sales of $5.3bn. This puny return on sales is an improvement over 1993's loss of $501m. However, it pales next to industry competitors such as Freightliner, which will earn twice the amount that Navistar will earn this year on a fraction of the sales.

The sale of the International Harvester agricultural machinery division a decade ago turned into an expensive long-term disaster for Navistar, which retained pension and healthcare obligations for those who retired from the spun-off unit.

At one point Navistar was supporting three retired persons for each one of its active workers.

James Cotting, Navistar's chief executive, has spent his 15-year tenure at the company keeping bankruptcy at bay, gradually reducing $4bn in debt and last year landing a union agreement that allows the company to swap some of its pension obligations for equity.

The deal, which was credited with salvaging the company's future, tripled the number of Navistar shares outstanding, a dilution that dulled any budding enthusiasm for the company on Wall Street.

The sale of the International Harvester agricultural machinery division was an expensive long-term disaster for Navistar

With business conditions strong, and the immediate crisis past, Mr Cotting announced in October that he would be handing the baton over to John Horne, currently Navistar's president, in March. A life-long Navistar employee, Mr Horne is an engineer by training and is steeped in Navistar's operating side, in contrast to Mr Cotting's financial focus and background.

Mr Horne will be charged with managing a high-cost producer in an industry facing an imminent downturn, says John Stark, the editor of the Chicago-based Off-Highway Ledger and a veteran observer of the US truck industry. "The question of the moment is how he is going to cope with the drop in demand for Navistar's products that will begin next year."

The general outlook is for US heavy truck demand to drop off 10 per cent in 1995 from this year's peak, and experience an even bigger decline in 1996. "He has about one year to plan for the cyclical downturn," Mr Stark says.

He suggests Mr Horne will search for a "white knight" to save the company from another crisis, although, he says, "they still have such a heavy debt load that few people will be interested. He may be forced to go it alone." Mr Horne declined to talk about his plans for the company.

Although most cyclical businesses bank profits in a highly profitable year to cushion the lean times, Navistar, unlike its competitors, is not making extraordinary profits this year, and so has less to take to the bank.

This will hurt doubly next year, as Ford introduces its new line of heavy trucks, and other competitors launch new products to challenge Navistar's medium truck line.

Many of Navistar's troubles stem from having to service debt far above industry averages.

In an effort to cut costs, the company for the past three years has focused on negotiating lower-cost single-supplier agreements for its heavy truck components.

In a flat or declining market, being tied to one supplier can be economical.

However, in highly profitable times, having a single supplier for critical components can lead to shortages and production bottlenecks, both problems suffered by Navistar this year.

The single-supplier problem is less noticeable at Navistar's diesel engine production operations, where Mr Horne has moulded the most successful of the company's divisions.

Lack of capital has also blocked the company's obvious need to diversify to temper the cyclical effects of its business, and has forced the company to defer much-needed manufacturing improvements.

Laurie Morse

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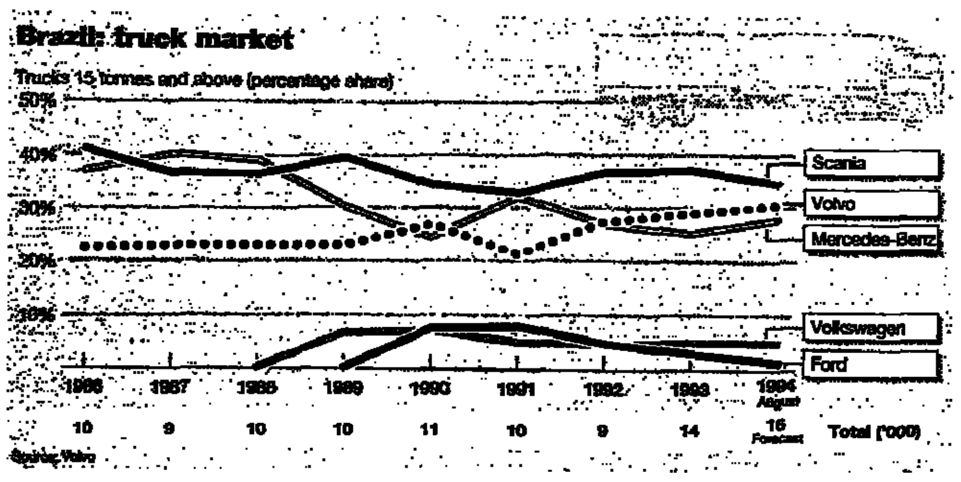
South America: **Patrick McCurry** discusses future prospects

Potential for growth is huge



Sharp growth in Brazil's commercial vehicle market is fuelling higher production while locally-based manufacturers are increasingly looking to the Mercosur free-trade area (Argentina, Brazil, Paraguay and Uruguay) for economies of scale.

But manufacturers are worried about growing imports, particularly in light commercial vehicles, and despite impressive productivity gains in recent years local producers still lag behind foreign competitors.

Production of light commercial vehicles is expected to reach 253,000 units this year, up 13 per cent on 1993. Heavy vehicle production is likely to increase by 31 per cent to 62,000 units.

And the potential for future growth in the market is huge, say vehicle makers, pointing to Brazil's 157m population, its important farming and industrial sector and a land area roughly the same size as the United States excluding Alaska.

Rolf Eckrodt, president of Mercedes-Benz do Brasil, is optimistic about the long-term potential: "The lorry fleet is old, about 12 years on average, and needs replacing. At the same time there is enormous scope for economic development spurring demand. For instance, only 9 per cent of roads are asphalted so far."

Much of the short-term potential, however, will probably depend on whether Brazil's economic stabilisation can be maintained. A new real currency, introduced in July and linked to the country's international reserves, has brought down monthly inflation from 50 per cent in June to about 3 per cent in November.

But to consolidate the new currency's future, President Fernando Henrique Cardoso will have to negotiate tough economic reforms with Congress soon after taking office on January 1.

The market has been helped by increasing business confidence

The growth in Brazil's commercial vehicle market is part of a booming domestic vehicle market. Last year production was 1.39m units, up 29 per cent on the year before. This year production is expected to approach 1.6m.

The increase has been sparked by agreements between the government, companies and unions which have reduced taxes, increased productivity and limited wage demands. The agreements were aimed at making Brazil's motor industry more competitive after former president Fernando Collor began to open the economy to imports in 1990.

As well as these agreements, the commercial vehicle market has been helped this year by increasing business confidence following the new currency launch and by the development of leasing financing for companies. The proportion of heavy commercial vehicles bought through leasing contracts has increased to about 40 per cent this year from 9 per cent in 1991.

"Today inflation is under control, there is a strong currency and there is much more confidence among companies," says Udo Kruse, president of Ford's Brazilian subsidiary.

He says a "snowball effect" is emerging among companies seeking to renew their often aged transport fleets. "In April, we sold 660 lorries to Pepsi and soon after that Coca-Cola and Brahma, a local soft drinks manufacturer, began to make inquiries."

The beneficiaries of this growing demand have been the main locally-based manufacturers – Volkswagen, Fiat, General Motors, Ford and Mercedes-Benz – which have been improving productivity and quality to respond to growing competition from imports.

Since 1990, productivity gains have averaged 17 per cent a year, half the gains has been due to higher volumes and the rest to restructuring, according to a report by consultants Booz-Allen earlier this year. Vehicle defects have fallen by 50 per cent during the same period.

Productivity measures have led to job cuts in some companies. Mercedes-Benz has reduced its workforce from 20,000 to 16,000 in the past two years, while increasing production to 40,000 from 34,000 vehicles, says Mr Eckrodt.

He adds that the company is attempting to increase radically the contracting out of work. Today, the company is highly vertically integrated and is making 58 per cent of the value of the vehicle in house. In future, it plans to purchase much more from outside suppliers reducing the level of in-house work to 35 per cent.

Manufacturers know they must continue to increase efficiency if they are to compete with imports, which have been increasing since import duties were lowered under Collor and speeded up following the 15-18

Manufacturers know they must increase efficiency to compete with imports

per cent appreciation of the real this year. The government recently cut tariffs again, from 35 to 20 per cent, after frustrations at local manufacturers' inability to supply domestic demand, which the government feared would pressure inflation.

According to Volkswagen spokesman Alberto Boaschi imports of light vehicles will jump to 60,000, 25 per cent of the market, next year compared to 32,000 vehicles, 16 per cent of the market, this year and 11,000 vehicles in 1993.

While Brazilian productivity is on a par with Mexico's, at 48 hours per vehicle, it is well behind Europe, at 36 hours, and Japan, 16 hours, says Ford's Mr Kruse. Even after taking into account Brazil's lower labour costs, productivity is still 10 per cent below Europe's, according to the Booz-Allen study.

Manufacturers complain that even after tax reductions conceded by the government in the motor industry agreements, taxes and non-salary costs are still much higher than international levels.

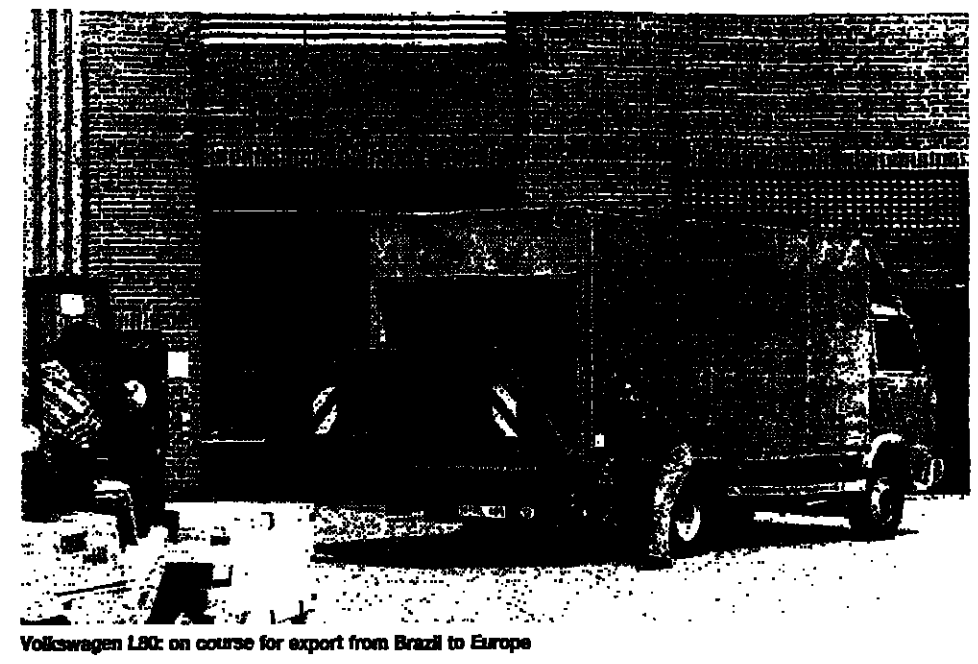
Companies say the transition from a closed protectionist market to a highly competitive one has been too rapid. "We need a reasonable time to become world class on quality and productivity," says Mr Kruse.

Part of the manufacturers' productivity strategy is based around the Mercosur free-trade area, which companies agree will be a crucial motor for growth. The Mercosur, composed of Brazil, Argentina, Uruguay and Paraguay and with 192m people and a combined output of $642bn, starts up on January 1, 1995. The member governments are still negotiating an agreement for the motor industry but the process of standardisation and integration of production between multinationals' plants on both sides of the border has already begun.

Mercedes' plants in Sao Paulo, the company's biggest commercial vehicle producers outside Germany, exported $260m in vehicles and parts to Mercosur, mainly Argentina, last year, nearly half its total exports. Imports from Mercosur totalled around $100m.

The company is planning a transporter vehicles plant for Argentina, making commercial vehicles below six tonnes, and production of transmission systems was moved to Argentina several years ago. The future strategy will be for Brazil to focus on trucks and Argentina on transporter vehicles.

"The most important thing will be the weight that Mercosur carries with other trading blocs," says Mercedes' Mr Eckrodt, who believes integration with other countries such as Chile, and with other blocs such as the North American Free Trade Agreement (Nafta), is inevitable: "The long-term outcome will be a Panamerican market including the US and the whole of Latin America."


Volkswagen L80: on course for export from Brazil to Europe


Chinese-built Steyr heavy truck working on a new industrial site near Jinang

China and the Pacific Rim: **Pat Kennett** reports

Eyes turn westward

A number of countries in Asia and the Pacific Rim are seeking to develop motor industries, and commercial vehicles feature high on their priorities.

Many nations have turned to the west – especially Europe – to find partners to help them develop their industrial programmes.

China, the world's largest potential market for industrial products, including commercial vehicles, is leaning heavily on Europe to develop transport-related industries. In 1984, Berliet signed an agreement to build heavy trucks in China, on a progressive technology-transfer basis. That design remains in production as the Yanan heavy six-wheel truck.

In 1984, the Austrian company, Steyr, now part of the MAN group, negotiated an agreement to build heavy trucks and diesel engines, initially CKD, but with increasing local content. Today, local content is just over 80 per cent, and the agreement has so far produced almost 10,000 trucks over 16 tonnes gvw, and more than 5,000 engines for other purposes. Its success means that further development beyond 1998 is under review in the eighth five-year plan.

A similar agreement by Iveco in 1986 to build a modified version of the "Daily", a vehicle family in the 3.5 to six-tonne class, is in full production. By late 1994, 65 per cent local content was achieved.

Numerous components companies are manufacturing in China on a joint-venture, technology-transfer basis, including ZF and Eaton, Bosch, Cummins, Lucas and Rockwell. It is accepted that negotiations with the Chinese industry agencies cannot be hurried. Steyr's agreement required six years of negotiations. That does not dissuade others from trying and the Chinese agencies remain keen to develop their heavy vehicle industry.

In October 1994, Volvo signed a letter of intent with China National Heavy truck Corporation (CNHTC) to establish a joint venture company to manufacture heavy trucks. So far, no dates or investment levels have been defined, but Volvo Truck's president, Karl-Erling Trogen, has declared that the Chinese project is "an integral part of an aggressive expansion programme in Asia".

For many years Mercedes-Benz has operated a modest joint venture in Mongolia called Norinco producing chassis and axles for incorporation into other vehicles, but is now negotiating with CNHTC to upgrade this to full technology-transfer heavy vehicle manufacturing. Construction of new manufacturing facilities was completed during 1994, and a new heavy truck is expected to roll off the production soon. A letter of intent aimed at a joint venture with Yangzhou Motor Coach Manufacturing aims at building up to 6,000 complete units a year plus a similar number of chassis for local body-builders to complete.

While the spotlight tends to fall on China, a great deal of activity is evident in countries throughout the region.

One of the catalysts for this upsurge in business is the development of oil and natural gas resources, in China, Indonesia and Malaysia in particular. For the first time, economical operation of large fleets has become feasible. Some estimates put China's bus require-

Negotiations with the Chinese authorities cannot be hurried

ment at 30,000 units a year early in the next century. Rapid industrial expansion in Korea, Malaysia, Taiwan, Vietnam and Indonesia demands high levels of technology input, and here, too, European companies are leading the way.

Iveco established a joint venture in Vietnam to build medium-weight trucks and buses, early this year, and that project is now nearly ready to produce the first vehicles. MAN is exploiting considerable expertise in the use of CNG (compressed natural gas) to power buses, and city trucks. It is providing substantial numbers of buses to Malaysia and Indonesia, and is negotiating an agreement for a joint venture, to supply several countries in the region.

Recognising the difficulties of China, Scania is developing a multi-location strategy, and in 1993 sold more than 1,300 heavy-duty trucks in the region with 1,600 expected this year. Scania has bases in South Korea, Hong Kong, and Thailand, with independent importers in more than a dozen territories. The principal products are heavy tractive units to haul containers and bulk tanks. Bus business began in 1993, and more than 50 units were sold in Malaysia in 1994.

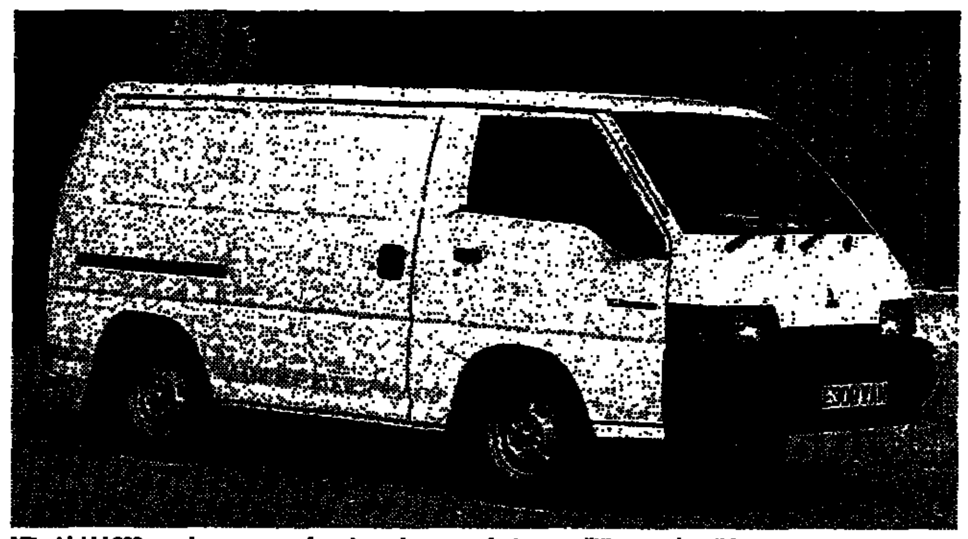
Mercedes-Benz has become very active in the region, following the success of its deal with Ssangyong Motor in South Korea, which provides engines and technology for cars and light commercial vehicles. A new agreement suggests 50,000 units a year being produced by 1996.

In mid-1994, Mercedes' Indonesian partner, German Motor Manufacturing (GMM), began producing a truck range in the 6 to 8-tonne gvw class, and a bus version will follow in 1995. This range, called MB700, is intended to supply neighbouring territories as well as Indonesia, and represents a joint investment of US$42m. Mercedes has joint or independent partners in 15 territories in the Asian region and opened a central parts store in Singapore in 1994 to support them.

India has become an important international element in the past year, following a decade of quietly developing its internal markets. Following the acquisition by Iveco of a substantial holding in Ashok Leyland in 1992, and rapid development of trucks and buses for Asian and African markets, Mercedes-Benz has renewed its interest in India. The vehicle operation of the huge Telco conglomerate (Tata Engineering & Locomotive Co) was once a joint venture with Mercedes, but became wholly independent in the 1970s. Now Mercedes has established a new agreement with Telco. While this agreement covers passenger cars principally, it is acknowledged that Mercedes technology will help to develop Tata commercials, too. In recent years, Tata trucks and buses have been successful in south-east Asia and Africa, due to rugged dependability and ease of maintenance.

Much the same can be said of Ashok Leyland which, as well as older Leyland-based designs, recently added a simplified version of the Ford Cargo for domestic and export markets. Between them, Ashok and Telco are building more than 70,000 trucks and buses a year over 5 tonnes gvw, and about twice that number in the lighter sectors. Telco is already exporting light commercial vehicles to France and the UK, and has an agreement with Cummins to manufacture diesel engines.

Why is there so much co-operation between Asia and Europe, rather than Japan? The main attraction is that European companies are more willing to engage in full technology-transfer than the Japanese commercial vehicle makers. Another reason is that Japanese domestic restrictions on heavy vehicles mean that European makers have more expertise to offer. Consequently, India, Indonesia, China, Vietnam, Taiwan, South Korea and others see themselves as genuine international vehicle producers in the future.


Mitsubishi L300 panel van: economic upturn gives manufacturers a little more breathing space

Japan: market is recovering, says **Dennis Normile**

On the road to profits

After four years of falling sales, Japan's commercial vehicle market is enjoying improved sales as Japan's economy recovers. In addition, stiffer emissions requirements are forcing the retirement of older trucks, and new draconian penalties for overloading are forcing transport firms to trade up to larger trucks.

Coupled with the benefits of streamlining efforts by producers, Japan's commercial vehicle industry is poised to see its most profitable year since 1990.

The Japan Automobile Dealers Association recently reported that unit sales of trucks in October were up 8 per cent over the same month a year ago, and unit sales of profitable large trucks jumped 31.4 per cent to 11,178 vehicles.

It was the sixth consecutive month of double-digit percentage increases in sales of large trucks, those with a gross vehicle weight of 4 tonnes or more.

This sales trend has led Hino Motors, Japan's largest medium and heavy-duty truck maker, to forecast a doubling of last year's pre-tax profit. Isuzu Motors now expects to show a full-year profit for the first time in four years. Nissan Deisel is also expected to return to the black after a loss last year.

Hino is so confident of the increased level of demand it has just announced a 13 per cent price increases for new truck models.

This confidence is partly based on brightening prospects for Japan's economy. Capital spending is starting to recover and the truck manufacturers expect some pent-up replacement demand. New truck sales are also getting a boost from tougher emissions requirements. Air pollution levels in the main metropolitan areas, especially for oxides of nitrogen, have not fallen to targeted levels. Diesel-burning engines are thought to be the main culprits for oxides of nitrogen, so authorities are tightening emissions requirements for trucks.

New vehicles have had to meet the tightened requirements since December last year. Older vehicles will have to clear the hurdle as part of their periodic safety inspections, but depending on a truck owner's circumstances, grace periods can stretch for up to 12 years.

Older trucks will have to be modernised or retired and the industry expects that many owners will opt to replace vehicles that do not meet the new standards.

Those two factors, however, are seen to be having a relatively small impact compared to new penalties for exceeding rated loadings. Previously, overloading had been more or less winked at with a fine that amounted to little more than a slap on the wrist. Overloading came to be a standard practice, however, and authorities, citing safety and highway maintenance concerns, stiffened penalties this past May. Load limit violators now face fines of Y100,000 (US$1,000) and the possibility of six-month jail terms and the suspension of permits and licenses. Not surprisingly, police have reported a dramatic decline in the number of load limit violations. Sales of large trucks have been running at levels of 10 per cent or more year-on-year every month since May as transport firms buy larger capacity trucks to stay within rated load limits.

The recovery in demand does not mean that truck makers can ease up on their streamlining efforts. For one thing, the move to larger trucks caused by the toughened loading restrictions is seen as a temporary boost, although it will increase replacement demand in the future. Earlier this year, Hino president Tomio Futami predicted that the domestic truck market would stabilise at around 150,000 vehicles a year in the near term. While this is a vast improvement over 1992, when sales were barely over 115,000 vehicles, it is still off the levels of the boom years 1988 through 1991, when sales topped 170,000 every year. What is more, the strong yen has dampened exports and is encouraging imports.

In the first 10 months of this year, commercial vehicle imports totalled 22,070 vehicles, an increase of 357.4 per cent over the same period last year, according to the Japan Automobile Importers' Association. Nearly 60 per cent of those vehicles were light trucks built by a Nissan venture in Mexico. But America's General Motors, in particular, has been dramatically expanding its sales of commercial vehicles, thanks to the use of Isuzu's sales network. GM is Isuzu's largest shareholder. And, finally, while Hino and Mitsubishi Motors are profitable, Nissan Diesel and Isuzu are likely to be barely so.

The makers recognise that this year's upturn gives them a little more breathing space but that they will still have to carry through with the restructuring and diversification plans put into effect over the last several years.

The most dramatic aspect of that restructuring has been paring the workforce. Hino says it has managed to cut the number of seasonal contract workers it needs by half, from 26,000 to 13,000. All the makers have been cutting overtime hours and reducing new hires. They have also been restructuring sales outlets and subsidiaries. Isuzu merged an auto-body subsidiary into the parent earlier this year to reduce management overhead.

The drive to concentrate resources is also seen on the production end. Hino has ceased production of small passenger cars on consignment for affiliate Toyota Motor Corp. While this probably reflects the need for Toyota to put its own production facilities to full use, it will allow Hino to concentrate on its more profitable truck business. There has also been an industry-wide drive to co-operate to pare development and procurement costs and realise economies of scale by swapping vehicles. The four leading truck manufacturers jointly agreed on specifications for brakes for heavy-duty trucks. Akebono Brake Industrial will supply identical brake systems to all four. Co-operative arrangements are particularly thick in the small commercial vehicle segment, which has not been profitable.

Hino will supply a 5,000 cc diesel engine to affiliate Toyota Motor Corp. which will use the engine in a delivery vehicle which will be supplied to Daihatsu Motor, another Toyota group company, on an OEM basis.

A more extensive swap has been worked out by Isuzu, Nissan Diesel and Nissan Motor. The two Nissan companies will produce 1 tonne trucks and minivans for sale under the Isuzu badge. In return, Isuzu will supply the Nissan companies with 2 to 3 tonne trucks. Starting next year, the arrangement is expected to involve 23,000 vehicles a year. Competition in the light truck market is only expected to toughen as imports gain a greater toehold.

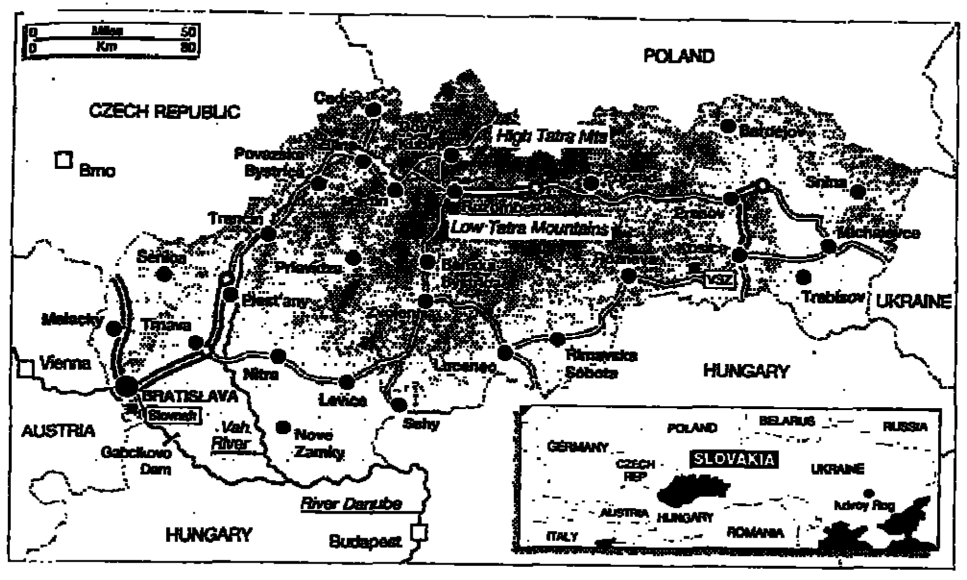
FINANCIAL TIMES SURVEY

SLOVAKIA

Call of the Tatras: beauty spots that draw the foreign tourists PAGE 2

Personality and sausages: why Vladimir Meciar has triumphed again PAGE 3

Friday December 16 1994



Lively two year-old at the crossroads

Industry and the economy are advancing steadily. But Slovak politics are increasingly polarised, write Anthony Robinson and Vincent Boland

'No to Meciar-ism' – demonstrators at a student rally express fears of authoritarian rule by the new prime minister following the recent general elections Picture: AP

After two years of independence the basic institutions of the new Slovak state are in place and the economy is responding well to tough, IMF-imposed monetary and fiscal policies. Rising exports are stimulating a recovery of industrial growth and boosting reserves.

But this central European country of 5.3m people remains politically polarised between a coalition of populist and nationalist forces, led by Mr Vladimir Meciar, and a fragmented opposition of Christian democrats, socialists and liberals.

Slovakia's aims remain the creation of a prosperous democracy and eventual membership of an enlarged European Union alongside the other former communist states of central Europe. But fulfilment of these aims remains fraught with considerable uncertainty.

General elections over the last weekend of September reaffirmed Mr Meciar and his Movement for a Democratic Slovakia (HZDS) as the dominant force in Slovak politics. He won the assent of 35 per cent of voters, more than his party's three main rivals combined. The result was a personal triumph for this charismatic but unforgiving man, and a traumatic defeat for both President Michal Kovac and Prime Minister Jozef Moravcik. Both are former allies of Mr Meciar who defected from the HZDS and helped to orchestrate the parliamentary revolt that toppled him and his government in March.

The new government put together by Mr Moravcik in the spring was a broad-based "historic compromise" of socialists, Christian democrats and liberal democrats. It held together well, presented a sober, democratic image to the outside world and restarted mass privatisation and other stalled economic reforms. But hopes that the coalition parties would gain electoral advantage from their good governance were dashed by the electorate.

The Party of the Democratic Left (SLD), led by an intelligent and articulate band of young former communists under Mr Peter Weiss, hoped to emerge as the biggest single party from elections. Instead it suffered a haemorrhage of support from frustrated workers and the unemployed and won only 10.4 per cent of the vote.

The Christian democrats (KDH), led by Mr Jan Carnogursky, received 10.2 per cent while the Democratic Union (DU), a collection of liberal democrats and former HZDS dissidents led by Mr Moravcik, picked up 8.6 per cent. In total, the coalition parties received 29.2 per cent of the votes and 50 seats in the 150 seat parliament against the 35 per cent of votes and 61 seats gained by the HZDS.

Mr Meciar's victory left him far short of the simple majority needed to govern, and even further from the qualified majority of 90 seats needed to satisfy his main ambition of changing the constitution of the state which he did so much to bring into existence. His long term aim is to transform Slovakia from a parliamentary into a presidential democracy, with himself as president. It is a prospect which fills many Slovaks with alarm.

Mr Meciar's appeal, while not inconsiderable, is concentrated geographically in the economically depressed hinterland of the Vah valley and central Slovakia. Sociologically he is popular among the weaker, less educated elements in Bratislava and Kosice, which have a tradition of ethnic tolerance and intellectual independence. He, and his xenophobic nationalist allies, the Slovak National Party, (SNS), are implacably opposed by the 10 per cent ethnic Hungarian minority whose votes up to now have been frozen in the political ghetto of ethnic-Hungarian parties.

In the short term, Mr Meciar faces the task of forming a credible and efficient government with his nationalist allies from the SNS and his "workerist" partners from the new Workers Union. The latter won more than 7 per cent of the vote by articulating the demands of the low paid and unemployed for more money and more jobs. These demands will be difficult to reconcile with the IMF's prescription of balanced budgets and fiscal restraint.

Longer term, the task facing the opposition is to forge a more united and credible centre party out of the social democratic, liberal and Christian democratic strands of Slovak political life, and to keep Mr Meciar within the bounds of political behaviour that are required if Slovakia is eventually to enter the EU alongside the Czech Republic.

Meanwhile, behind the *Sturm und Drang* of Slovak politics, a substantial improvement is taking place in the macro-economic performance of the Slovak economy, with substantial agreement between the main parties on the need to continue taking the bitter medicine prescribed by the IMF.

The underlying structural weaknesses of the Slovak economy were revealed by the loss of an estimated $700m a year subsidy from Prague on independence in January 1993, and above all by the collapse of Comecon markets and the end of the Cold War.

Attempts to restructure the big military factories concentrated in the Vah valley and central Slovakia have had very limited results. New investment and joint ventures with foreign companies to shift from producing tanks to tractors, fork-lift trucks and construction machinery were all predicated on a post-communist reconstruction boom in the former Soviet states which, thus far, has failed to materialise. Unemployment in these areas remains very high, between 25-40 per cent in some districts compared with the national average of 14 per cent.

On the other hand, the private sector now accounts for more than 40 per cent of GDP and is growing steadily. A revived mass privatisation programme seems destined to survive the change of government, albeit with relatively minor modifications.

Several of the biggest former state owned industries such as Slovnaft, the refining and petrochemical complex, and VSZ, the biggest integrated steel group, have been partly privatised and re-organised with substantial new investment. Long-stalled projects, like the Slovalco aluminium smelter in central Slovakia, are being revived with support from the European Bank for Reconstruction and Development (EBRD).

The main need now is for an acceleration of institutional reforms of the banking and finance sector and better management and new investment in the enterprise and farming sectors. Meanwhile, strong demand for steel, petrochemicals and other Slovak products in world markets has contributed to an export boom which is raising industrial output and pouring hard currency into the reserves which have more than quadrupled over the last 18 months to around $3.4bn.

Tight central bank control of monetary policy and public spending cuts have brought prices down to within sight of single digit inflation next year. Lower inflation and rising reserves have reinforced the Slovak koruna, which was devalued by 10 per cent in July 1993 in agreement with the IMF. Since then the exchange rate has been stable.

Inflows of foreign investment, however, are just a trickle compared with levels in the Czech Republic, Hungary or Poland. This is a direct result of political instability. Slovakia needs to maintain its access to the international capital markets to get financing for the massive job of restructuring industry and developing the infrastructure.

The 3.3m people who have invested in the voucher privatisation programme have effectively passed a vote of confidence in continued economic reform. Mr Meciar is far too astute to miss that message, and it may yet have a large bearing on his policies in government.

"Heed what he does, not what he says," say some observers in Bratislava of Mr Meciar, arguing that he is a different, more pragmatic animal in government than his rhetoric at the hustings makes him appear. Many Slovaks as well as potential foreign investors and political partners will be doing just that.

KEY FACTS

Area	49,036 sq km
Population	5.3 million
Head of State	President Michal Kovac
Currency	Slovak Crown (Koruna)
Exchange rate	31/12/1992 $1=28.9 SKK
	31/12/1993 $1=32.8 SKK

ECONOMY	1992	1993
Real GDP growth (%)	-7.0	-4.1
Consumer prices growth (%)	10.0	23.2
Ind. production growth (%)	-13.7	-13.5
Unemployment rate (%)	10.4	14.4
Reserves minus gold ($bn)	0.3	0.4
External debt ($bn)	2.8	3.6
Convertible currency trade		
Current account balance ($m)	68	-708
Merchandise exports ($m)	3,321	2,999
Merchandise imports ($m)	3,550	4,094
Trade balance ($m)	-299	-1,095
Main trading partners (%)	Exports	Imports
Austria	7.2	8.8
Czech Republic	53.6	52.1
EU	34.7	34.2

Sources: Deutsche Bank Research.

President Kovac: setback at the polls

■ Interview: Mr Michal Kovac

Frustration of a nation builder

When independent Slovakia was born in January last year Mr Michal Kovac hoped to use the authority of his office as the country's first president to build a new sense of statehood. But the political instability that gripped the country almost from the start has left him little time for nation-building.

"So far I have not succeeded," he notes with a shrug, sitting on the edge of a chair in his sparsely furnished office in the baroque former Bishop's Palace where Napoleon and the Austrian Emperor signed a temporary peace after the French triumph at the battle of Austerlitz.

The man who has been making life hard for Mr Kovac is his former colleague and fellow-communist, Vladimir Meciar, who is about to return as prime minister after being forced from office last March, with the president a key player in his ousting.

Mr Kovac appears unfazed at the prospect of his arch-enemy returning at the head of a new government, which is likely to be strongly populist, nationalist, anti-Hungarian and anti-Michal Kovac in tone. Indeed, the president is a little richer because of the result of the election at the end of September.

He was the winner of a presidential office bet on the outcome, winning the princely sum of SKK1,000 ($32) by predicting most closely the share of the vote going to Mr Meciar's Movement for a Democratic Slovakia (HZDS) – it won 35 per cent; Mr Kovac predicted 33 per cent.

Observers in Bratislava say Mr Kovac has learned quickly how to get his opinion across within the constraints imposed by his position. Every political party, he says, has the same value for him, and he can express neither anxiety nor joy at a certain party's success or failure. Election results, he says, express the democratic wish of the people, and "I'm obliged to respect that".

But the the president now suspects that he and the office he holds are due for renewed attack. Mr Meciar wants to establish a presidential form of government in Slovakia, a move Mr Kovac thinks is dangerous. The roots of democracy are not yet deep enough in Slovakia for such a system, he says, warning of a subsequent misuse of personal power. "I'm for a parliamentary system, not a presidential one."

In order to establish a presidential system Mr Meciar needs to muster 90 votes in the 150-member parliament to secure a change to the constitution. As talks on forming a new government drag on without any immediate sign of success the likelihood that the new prime minister will achieve his goal recedes, though he has still not committed himself to ceasing his attacks on Mr Kovac.

The president says that if a presidential system is established its success will depend entirely on the personality of the holder. Does he think Mr Meciar is a suitable candidate for such a position? "I am not able to say," he comments diplomatically.

Would he be a candidate himself? "I haven't decided yet." Observers in Bratislava say he almost certainly would run for office in such an event.

He would not object to a presidential system, he says, if the new constitution that would result allowed for unfettered opposition politics and independent radio and television and "if other democratic functions were allowed to function".

But even without being president or even prime minister Mr Meciar has already used the power stemming from a bare coalition majority to wrest control of the media and other key state bodies such as the National Property Fund, which prepares companies for privatisation.

Early in November, in a parliamentary session that has become known as "Bloody Thursday", he organised a parliamentary coup which gives his incoming government complete control of these bodies and gave an early warning of the confrontational tone of his administration.

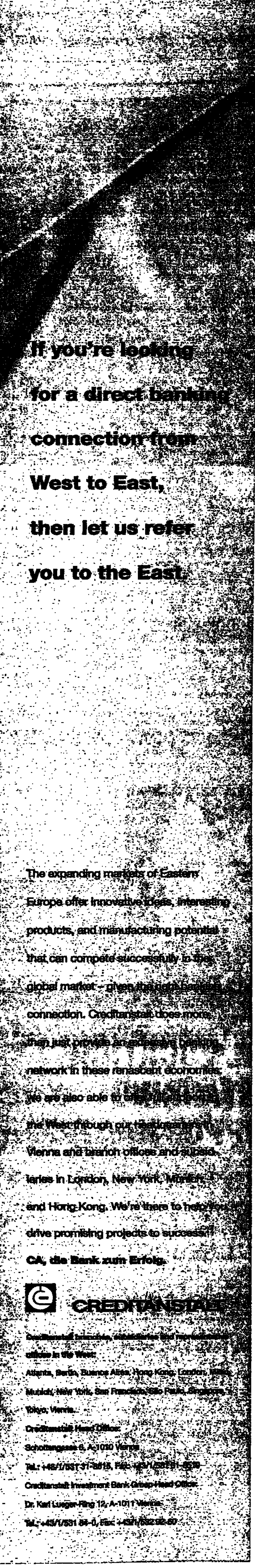
Though he appears remarkably self-confident for a man who has been publicly vilified by his enemies for his role in removing Mr Meciar in the national interest earlier this year, Mr Kovac is clearly disappointed that he has been prevented from developing his original vision of a unifying presidency.

Mr Kovac was not widely known when he assumed office at the beginning of last year. The man destined to become Slovakia's first president had been Alexander Dubcek, the communist party leader whose Prague Spring reforms led to the Warsaw Pact invasion in 1968. But he was killed in a car accident just weeks before his country became independent on December 31, 1992.

Mr Kovac stepped into his shoes. But, both as a communist party official and as chairman of the last Czechoslovak federal parliament after the velvet revolution, he has spent a great deal of time in Prague, a suspicious past for the more nationalistic of Slovak voters.

Asked whether he thought independence had changed him and his fellow-Slovaks, Mr Kovac lamented that the old way of thinking, in which the state promised to take care of everything, still predominated. It even helped to ensure Mr Meciar's victory in the election. "People still think some bright new future will come out of that kind of thinking. But such a thing does not exist any more," he says.

Vincent Boland



SLOVAKIA 2

A second round of privatisation is about to start, says **Vincent Boland**

Never mind the politics

Differences over the policy and implementation of privatisation have been a battleground between Mr Vladimir Meciar and his political opponents throughout the brief life of the Slovak republic.

Whatever their political allegiances, however, more than 3.2m Slovaks, roughly 60 per cent of the population, have shown their hand by buying the books of coupons which they can exchange for shares in state companies.

Popular support for private ownership did not translate into political support for the outgoing government as happened in the Czech republic two years ago. But the voucher method chosen for Slovakia's second round of mass privatisation is based on that pioneered by the former Czechoslovakia and put into operation in both halves of the then federal state.

Though the outgoing government's original plan to privatise up to SKK80bn worth of state companies through vouchers is likely to be diluted by the new administration, investment fund managers remain confident that it will give a substantial boost to the country's capital markets and further increase the role of the private sector in the Slovak economy.

Ladislav Vaskovic, chairman of VUB Invest which manages Slovakia's biggest investment fund, VUB Kupon, describes the response to the voucher privatisation programme as "the biggest mandate of all". It is a clear sign that Slovaks are in favour of voucher privatisation, he says, and should send a message to the incoming administration of Vladimir Meciar not to tamper with it, as he has threatened.

If even a watered-down version of voucher privatisation is completed it will give a substantial boost to Slovakia's capital markets. Investment fund managers say the final size of the voucher privatisation programme should be SKK60bn.

This is lower than the Moravcik government's target because the original proposals included the profitable gas transmission and electricity generation and transmission companies. Now, Sergei Kozlik, Mr Meciar's chief economic adviser, says the energy sector has been designated a "strategic industry" in which the state will retain a majority shareholding.

There are already more than 500 companies quoted on the Bratislava stock exchange as a result of the first wave of voucher privatisation which took place when Slovakia was part of federal Czechoslovakia. Only 13 companies are fully listed, but they include such key companies as Biotika, a pharmaceutical group, Slovnaft, the refining and petrochemical giant, Nafta, a gas supplier, and Vseobecna Uverova Banka (the General Credit Bank), Slovakia's dominant commercial bank.

Stockbrokers say the bulk of trading activity is concentrated on about 50 stocks, which are

More than 500 companies are quoted on the Bratislava stock exchange as a result of the first wave of privatisation

liquid enough to allow for a true market in their shares. Over 90 per cent of all trading is done outside the three official trading systems, the stock exchange, the options exchange, and the RM-S, a computer trading system that depends for its viability on dispersed shareholdings resulting from voucher privatisation.

Trading is dominated by the big investment fund managers, which include Harvard Capital and Consulting, Cassoviainvest and Creditanstalt as well as VUB.

Share prices are currently in the doldrums, with the SAX index of most-traded shares hovering around the 200 points level, compared to its peak of 401 points last March. That rally was driven mainly by foreign investment at a time when the Prague stock market was also booming, but a subsequent pull-out by overseas investors caused both markets to collapse.

The Bratislava market's biggest problem is its chronic lack of liquidity. Ironically, one of the causes of illiquidity is voucher privatisation, which leaves investment funds with large portfolios of shares and little or no cash.

Fund managers lament the lack of fixed interest stocks in the market, with just four large bond issues quoted so far.

In common with other emerging markets, Slovakia's capital markets are also beset with problems of transparency and lack of regulation. The outgoing government has almost completed a major plan to supervise the banking and financial sector, and there is a proposal to establish a regulatory body along the lines of the US Securities and Exchange Commission to set rules and ensure they are implemented.

Brigita Schmognerova, outgoing deputy prime minister in charge of the economy, says the new body will be charged with supervising the banking, pension fund and investment fund industries as well as the stock exchange. The authorities' main aim is to prevent a banking collapse on the scale of that of Banka Bohemia, a Czech bank that was shut down earlier this year after it issued $1bn worth of fake securities abroad.

"We have not had any big problems so far but it is only a matter of time," Ms Schmognerova says. "I hope the new government understands the necessity of building such an institution."

The outgoing government's plan also calls for the concentration of share trading in a single market. Bratislava's three stock markets are an expensive anachronism in such an underdeveloped market, and a fierce battle for survival is currently being waged between the stock exchange, which is owned by Slovakia's major banks, and the options exchange, which functions as a spot market. Thomas Grey, principal investment officer at Slovak International, an investment advisory group, says the stock market is 50 years behind the times.

Volume on the official markets rarely exceeds $150,000 daily, which is less than 10 per cent of total trading. The rest is done directly among brokers and market makers who bypass official channels because it is cheaper and faster. Brokers favour the options exchange, where a one-day forward contract helps set price levels in the over-the-counter market.

Juraj Stroky, president of Harvard Capital and Consulting (closely related to the company of the same name in Prague), says the options exchange is more tuned in to market trends and could already be the main trading mechanism if it had not been refused a stock market licence by the finance ministry. But the latter currently favours the existing stock exchange as the centre of future trading.

The drive for funds

Nomura Securities, the Japanese investment house, has given a big boost to foreign investor sentiment towards Slovakia with the purchase of a 29 per cent stake in VUB Kupon, the country's biggest investment fund. Nomura payed SKK2.18bn ($68m) for the stake in September, in one of the biggest foreign investments in the country so far. The transaction was also the largest ever recorded on the Bratislava stock exchange.

VUB Kupon is managed by VUB Invest, the fund management subsidiary of Vseobecna Uverova Banka, Slovakia's largest commercial bank. It owns large blocks of shares in many of the big companies in Slovakia and the Czech Republic, and is currently heavily weighted towards the latter, with roughly 75 per cent of its portfolio currently represented by Czech assets, says Mr Ladislav Vaskovic, managing director of VUB Invest.

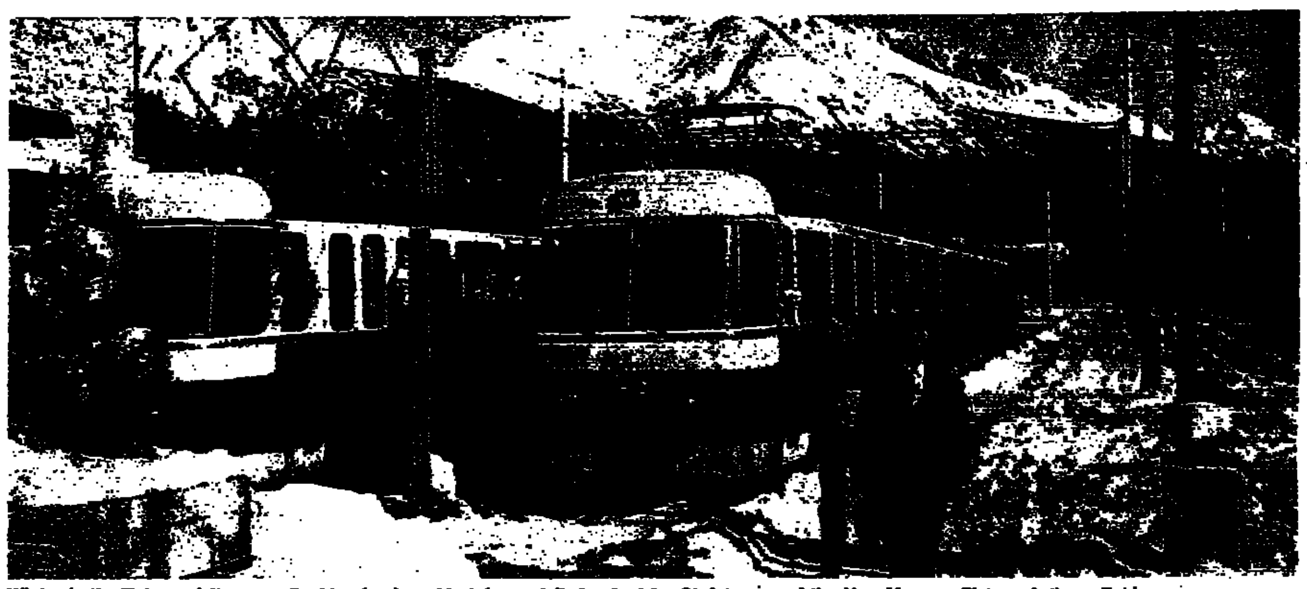
Slovak fund managers are currently establishing new investment funds to attract some of the 3.2m investors who have bought vouchers to participate in the privatisation programme drafted by the outgoing government of prime minister Mr Jozef Moravcik. Barring undue political delays, the final size of the voucher programme is likely to be SKK60bn, and competition for the investment points attached to vouchers is fierce.

Each voucher booklet, which can be bought for SKK1,000, is worth 1,000 investment points. Shares are allocated on the basis of demand.

Shares in companies considered attractive by investors will cost more points than those of unattractive companies.

V. B.


St Nicholas Church, Prerov Picture: Bandphoto


Winter in the Tatras: visitors are flocking back and hotels are fully booked for Christmas and the New Year Picture: Anthony Robinson

Anthony Robinson takes the mountain tourist trail

Call of the Tatras

When Czechoslovakia divorced into its constituent Czech and Slovak parts the Czechs ended up with two thirds of the population and most of the viable economic assets. But Slovakia ended up with the most beautiful parts of the former federal state which in inter-war times extended even further east into Trans-Carpathian Ruthenia.

Slovakia's jewel, and the focal point of its tourist industry, is the High Tatra mountains, which separates Slovakia from Poland. Its snow-covered central massif is less than 50km. long.

Immediately after the "velvet divorce" the High Tatras lost their habitual *aficionados*, mainly Czechs and Germans. But this year tourism in general, but especially in the High Tatras, is showing a marked recovery.

Last year, (according to official statistics which understate the contribution from the private sector) tourism earned only $314m from 16.3m visitors. This year, 14.4m visitors entered the country in the first nine months alone and earnings for the first six months reached $268m. In the summer, Bratislava, the capital, received a steady flow of weekend tourists from Austria and other countries, while hotels and guest houses in the High Tatras report full bookings for Christmas and the New Year.

The communist regime constructed a superhighway along the base of the Tatras, which is fine for tour coaches but bad news for walkers. The old regime also put up ugly concrete blocks masquerading as hotels. Fortunately, however, there are also plenty of survivors from a more civilised age, such as the splendid Grand Hotel at Stary Smokovec, and smaller, cheaper establishments typified by the chalet-like Hotel Panda, also at Smokovec, which provides a warm welcome, goose for dinner and simple comfortable rooms for $25 a night all found.

Meanwhile, walkers and wanderers can ignore the super highway by opting for the red trams which wind their way around the contours of the mountain and through the pine forests.

But there is more to Slovakia than the High Tatras. Bratislava, or rather its historic centre, is small and provincial compared with the glories of Prague. It was further spoiled by the communists who demolished a medieval synagogue and a network of cobbled streets and old town houses to build the bridge which connects the old town with the high rise 1970s suburb of prefabricated "panelak" housing called Petržalka across the fast-flowing Danube.

Under the Habsburgs, when it was still called Pressburg, Bratislava was a favourite place for weekend outings by the people of Vienna upstream. Under its honest and capable mayor, Mr Peter Kresanek, it is now looking up again. The mayor, a Christian democrat, was re-elected with a comfortable majority at last month's local elections.

The Czechs inherited the wealth, but the Slovaks have the scenic beauty

Privatisation, and the restitution of property to former owners, has led to a reconstruction and re-furbishing boom which has restored the elegance of medieval, gothic and baroque churches, public buildings and the cheap and excellent opera and national theatres. Formerly neglected streets have been transformed and new private shops, cafes and restaurants have created a new vitality.

A small private hotel, the Perugia, has opened near the main square and the post-war Devin Hotel remains friendly, good value and full of central European atmosphere. The same cannot be said for its brash neighbour on the river front, the French-owned Danube, which charges high prices for spartan rooms, shoddy decor and the same terrible telephones as cheaper establishments. The Forum Intercontinental remains the smartest hotel in town, but it too is expensive, heavy on the marble and light on charm.

Between Bratislava, at the south western tip of the country, and Kosice, 500km. east of the capital and 100km. from the Ukrainian border, lies a string of small towns and industrial villages along the Vah valley. An alternative route takes one through the folds of the low Tatra mountains, actually a succession of wooded hills and occasional rocky outcrops, often crowned with spectacular ruined castles.

Before the war the towns and villages must have been harmonious little jewels. Their centres usually still are. But all too frequently the communists surrounded the historic centres with uniformly ugly glass and cement housing estates in defiance of all the rules of aesthetics or the logic of natural contours.

Visitors to Kosice, the capital of eastern Slovakia, are often depressed by the endless industrialised suburbs on the outskirts, only to be delighted by the glorious gothic pile of St Elisabeth's cathedral, the restored 19th century theatre and the strongly Hungarian-influenced architectural style of the old city.

Kosice's churches, with services in Slovak and Hungarian, synagogues and fine houses reflect the past ethnic complexity and cultural vitality of a city striving to revive its past glories. One of the three synagogues is still functioning, although plaques on the two largest recall how thousands of Jews were rounded up and sent to their deaths when Kosice was returned to Hungary by Hitler and the rest of Slovakia was ruled as a Nazi puppet state headed by a renegade Catholic priest, Father Jozef Tiso.

Scattered throughout Slovakia are remnants of earlier settlements of Swabians, Hungarians, Ukrainians, Jews, Ruthenians, Gypsies and others. Beyond Kosice lies Ruthenia, although most of Trans-Carpathian Ruthenia was annexed by Stalin after the war and now lies in Ukraine.

In general, the further east one goes the poorer the people, but the more intact are the old villages and towns, like Bardejov, and many other reminders of a rural past which was shaken up but not entirely destroyed during the communist years.

صكرا من الاصل

Meciar, the old warhorse, triumphs again, says **Anthony Robinson**

Sausages and charisma

On the last weekend of September Slovak voters had the first chance to register their verdict on the political record since independence.

When the general election votes were counted, Vladimir Meciar, who led Slovakia into a divorce from the Czech republic in January 1993, re-emerged as the dominant personality in Slovak politics. Once again Slovak voters voted in large numbers for a charismatic leader whose style and personality belongs more to the tub-thumping era of the past than the pragmatic, problem solving approach of modern political parties.

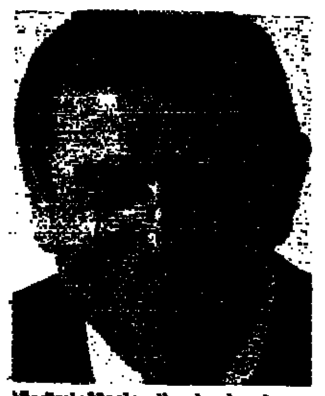
His Movement for a Democratic Slovakia (HZDS) won nearly 35 per cent of votes cast and 61 seats in the 150 seat parliament, more than three times the share of the vote gained by its nearest rival, the Party of the Democratic Left (SLD), whose reformed communist leaders had hoped to emerge as the new hegemonist political force in the country.

The vote was a personal triumph for Mr Meciar, who lost the premiership for the second time after a parliamentary defeat in March, and a humiliating set back for all his political enemies and rivals – including the president, Mr Michal Kovac, and Mr Jozef Moravcik, prime minister of the coalition government which replaced him in March.

Mr Moravcik, a former communist and academic who acted as the last foreign minister of Czechoslovakia, earned Mr Meciar's implacable enmity by defecting from the HZDS in 1993.

Encouraged behind the scenes by President Kovac, he helped to topple his former leader in March and put together a broad based coalition. It ranged from the reform communists of the SLD through to the christian democrats of the KDH led by Mr Jan Carnogursky and included Mr Moravcik's own Democratic Union, made up of dissident HZDS people and small liberal democratic groupings.

The Moravcik government, which always saw itself as a stop-gap affair to hold the reins before new elections, brought a new and more conciliatory style to Slovak politics, raised the new republic's image abroad and presided over a substantial recovery in the Slovak economy which began in the fourth quarter of 1993.



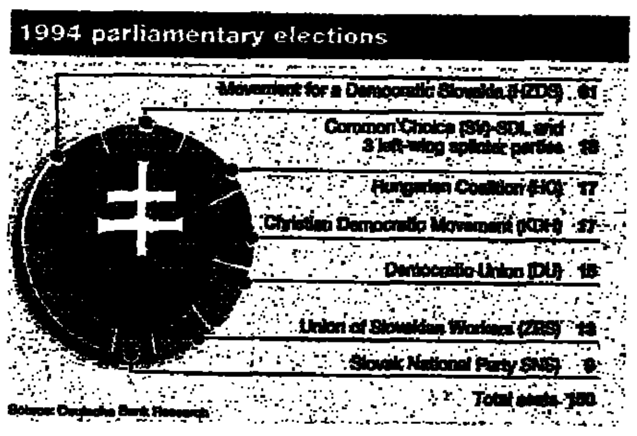
Vladimir Meciar: the dominant force in Slovak politics

However, the decision of the SLD, led by Mr Petr Weiss, to join forces with catholics and liberal-democrats and help share the responsibility for carrying through an IMF-approved economic policy of fiscal and monetary austerity proved disastrous.

Instead of gaining respectability and votes by its participation in government the SLD alienated its working class base who saw no reason to vote for a party which shared responsibility for tight economic policies at a time of declining real wages and high unemployment. They defected en masse to the unashamedly "workerist" Workers Union (ZRS) led by Jan Luptak and Miroslav Kočnar.

A further 5.4 per cent of the electorate voted for the Slovak National Party (SNS), the xenophobic, anti-Hungarian party led by Mr Jan Slota, the mayor of the north Slovakian town of Zilina. Local wags call him "Mr Zilinovsky", a double pun on the town and the Russian nationalist firebrand Mr Vladimir Zhirinovsky.

Mr Meciar spent six months fighting a no-holds barred electoral campaign awash with beer and sausages and personal appearances in towns and villages throughout his central Slovakian stronghold.



But he failed to win an overall majority and needs allies. He found them in the SNS, which formally agreed to join a coalition, and the ZRS which backed him in parliament and accepted positions in key parliamentary commissions but declined formally to join a coalition government. Together the HZDS, Nationalists and Workers mustered 83 seats, which gave them a working majority but was still seven votes short of the 90 seats needed to unseat the president and re-write the constitution.

Mr Meciar speaks of finding "seven trusty men", like seven samurai, to give him carte-blanche to forge a presidential system with himself at the head rather than the parliamentary democracy outlined in the current constitution. He also makes no secret of his desire to inflict personal humiliation on President Kovac, another former HZDS supporter who defected in frustration with Mr Meciar's domineering ways.

Mr Meciar's allies, such as Sergei Kozlik, the party's chief economic spokesman, paint instead a more reassuring portrait of a rational, middle of the road party.

He says the HZDS is fully committed to IMF-style macro-economic stability but responds to the hopes and fears of ordinary Slovaks, especially those in the bleak industrial towns of central Slovakia where the Soviet-era arms and engineering plants are near to bankruptcy.

But Mr Meciar revealed a vindictive streak on the night of Thursday, November 3, when the newly elected parliament reassembled. In a marathon session lasting 23 hours Mr Meciar sat back and watched while his political hatchet men and women proceeded with a purge of key office holders in parliament and quasi-state institutions, including state radio and TV and the privatisation agency as well as key parliamentary committees.

Mr Meciar also master-minded the setting up of a special committee to investigate the circumstances which led to his own dismissal as prime minister last March and passed a vote of no confidence in the privatisation and interior minister of what at this stage was merely the caretaker government.

Meciar allies dismiss protests as hypocritical and ask why foreign critics in particular had not voiced similar outrage when Mr Vaclav Klaus, the victorious Czech leader in the June 1992 elections, proceeded to make a similar clean sweep of his political opponents.

Diplomats privately reply that the difference is only superficially one of style. In practice, the replacement of trained lawyers and other educated office holders by poorly educated and politically untried nationalist or workerist allies on such a scale and with such contempt shocked many Slovaks, including opposition parties whose tacit complicity is required for the political process to work smoothly.

Shortly after the event the German and French ambassadors called on President Kovac to express the concern of the European Union at what is locally known as "bloody Thursday". They were promptly accused of impermissible interference in Slovakia's internal affairs by the redoubtable Mr Slota.

But three weeks after "bloody Thursday" voters had another opportunity to register their views, at countrywide local elections. Mr Slota was re-elected unopposed as mayor of Zilina.

But candidates closely associated with Mr Meciar and the HZDS performed much worse than at the general elections. Mr Meciar may well form a new government before Christmas. But his re-election has shocked his opponents, forcing them to create a more effective and united opposition.

The voice of reassurance

Sergej Kozlík has the task of putting the best possible face on the HZDS and its economic policies, writes ANTHONY ROBINSON.

He is anxious to reassure potential foreign investors worried at the prospect of a HZDS-led coalition government supported by xenophobic nationalists and a working class movement demanding higher pay and lower unemployment.

"We simply cannot make concessions to the ZRS workers' association which would lead to the loss of macro-economic stability and probably bring down the government yet again," he says. "We are looking for compromises from them which would ensure long term growth. We cannot allow wage increases without higher productivity but we can and will reform the social security system to focus benefits on the really needy," he adds.

According to Mr Kozlik, the HZDS has three economic priorities: higher public investment in highways; infrastructure and telecommunications; stabilisation of the agricultural sector and encouragement of exports and the entrepreneurial sector. For good measure, the HZDS policymaker adds banking sector reform.

He does not include privatisation but it has been a point of contention between the HZDS and the Moravcik government which cancelled some of the sell-offs rushed through in the last days of the Meciar government but whose own privatisation policies were bitterly criticised by Mr Meciar.

"In substance there are no real differences between the Moravcik government and the HZDS over privatisation. The differences are in the detail. We do not think that a majority of shares in companies should be distributed through the voucher privatisation method, but at least 51 per cent of a company should be in the hands of a clearly defined owner."

He is also sceptical about the role of investment funds which now have shares of 200 of the largest Slovak enterprises in their portfolios. "Funds may be good at managing portfolios but what we need are people who know how to manage the enterprises," he says. This is why the HZDS tends to favour management and worker buyouts rather than the dispersion of ownership through coupon privatisation and corporate governance in the hands of investment funds, he adds.

He is quick to pledge that coupon privatisation will continue, given the enthusiastic public response to the Moravcik government's launch of the second round of mass privatisation through vouchers. But he insists that the scale and volume of privatisation through the mass privatisation programme will change with greater emphasis on trade sales and other more conventional privatisation methods.

Miners hit rock bottom, says **Anthony Robinson**

Competition hurts

In communist times more than 8,000 workers were employed in the geologically complex polymetallic ore mines around Roznava, a small town some 50km. west of Kosice and close to the border with Hungary.

But the abolition of producer subsidies and the shift to world pricing revealed the hopelessly uneconomic nature of most of the mines.

In a saga repeated in dozens of small towns throughout central and eastern Slovakia thousands of miners have lost their jobs in an area of little alternative employment as mines have been closed over the last four years or production curtailed.

A similar fate still hangs over the Roznana mine near the town of Roznava where the former siderite iron ore workings have already been closed and uncertainty hangs over the potentially profitable polymetalic ore mine.

Production has already been suspended and its future will remain in doubt until ways can be found of profitably treating a 50,000 tonne concentrated ore stockpile and the rich ore body which still lies underground.

Two years ago Samax, the London-based parent of CMX Resources, established a joint venture with Zelezorudné Bane, the state-owned company which runs the Roznana mine. CMX, which was introduced to the mine while working with Czechoslovak mining engineers in Tanzania four years ago, agreed to evaluate the ores and seeks ways of eliminating the ecological hazards caused by the stockpiles from which mercury had already been extracted.

But initial hopes that an Australian roasting process would solve the problems of profitably separating the copper, silver, mercury, antimony, arsenic and other metals proved vain.

Now CMX is experimenting with a hydro-metallic leaching process invented by Sunshine Corporation of the US which "could turn the mine into one of the world's biggest producers of antimony along with 2m ounces of silver, and smaller amounts of copper and other metals a year," according to Mr Michael Martineau, technical adviser to CMX on the project.

"We are fairly confident that the project will go ahead with an investment of \$10-\$12m into what would be a long-life mine and treatment facilities," he adds. But such a decision hinges on the successful completion of the leaching trials, and the price of antimony which is currently at record levels.

Mr Vojtech Kral, managing director of Zelezorudné Bane, says "we hoped that events would move much faster, but our ores are very complex. Despite the problems we have good co-operation with our UK partner," he adds.

Mr Kral has successfully resisted former government plans to include the mine in the voucher privatisation programme, arguing that it needs a real owner who understands mining and is able to put in the capital required. He and his management team would consider a management buy-out "but only if the price is one crown so that we could put new resources into developing the mine", he says.

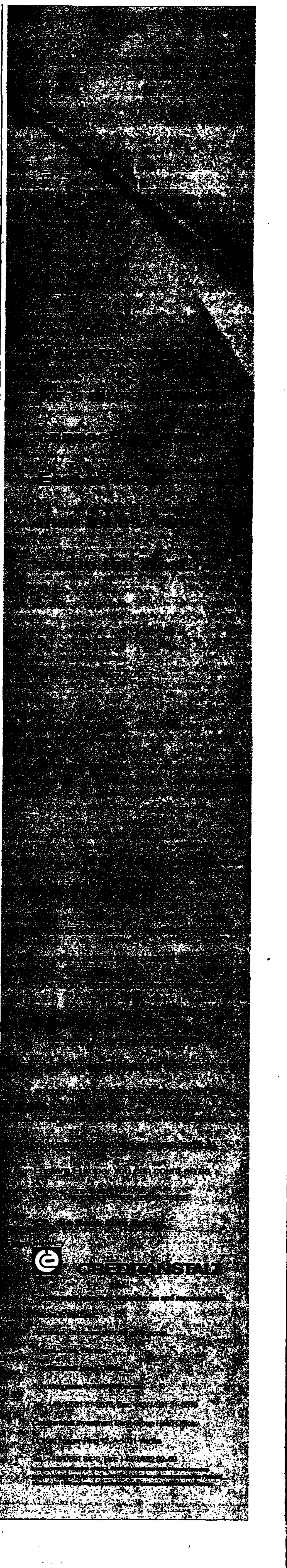
With bank interest rates between 18 and 22 per cent it would simply not be possible to make the mine profitable if money had to be raised to buy existing assets, he adds.

The only large scale mining still taking place in the Roznava area is at the nearby Nizna Slana iron ore mine. Here 1,200 miners excavate 1m tonnes of iron ore annually which is converted into around 450,000 tonnes of pellets and shipped to the VSZ steel plant 40km. away.

Reserves are adequate for the next 10 to 15 years with sizeable further deposits still to be confirmed.

The iron content of around 54 per cent is well below the 60-65 per cent contained in the pellets which VSZ receives from Krivoi Rog in Ukraine and costs are high because the mines are underground rather than opencast.

What keeps the mine in business is the cost difference between shipping ore nearly 1,100km. by rail from Krivoi Rog and hauling it less than 50km. to the steel plant which guarantees the livelihood of thousands of families throughout eastern Slovakia and the survival of small towns such as Roznava.



Heavy industries enjoy happier days as the tide of recovery starts to flow, writes **Vincent Boland**

Austerity begins to pay dividends

Slovakia's smokestack industries were in the doldrums when the country became independent two years ago. But many are now experiencing a rapid and profitable revival on the back of rising world demand for steel, chemicals and other basic industrial products.

As a result this year has seen a remarkable turnaround in the country's financial health from a state of near crisis during Mr Vladimir Meciar's first year as prime minister.

The outgoing government led by Mr Jozef Moravcik came to power last March with a commitment to restart privatisation and cut public expenditure.

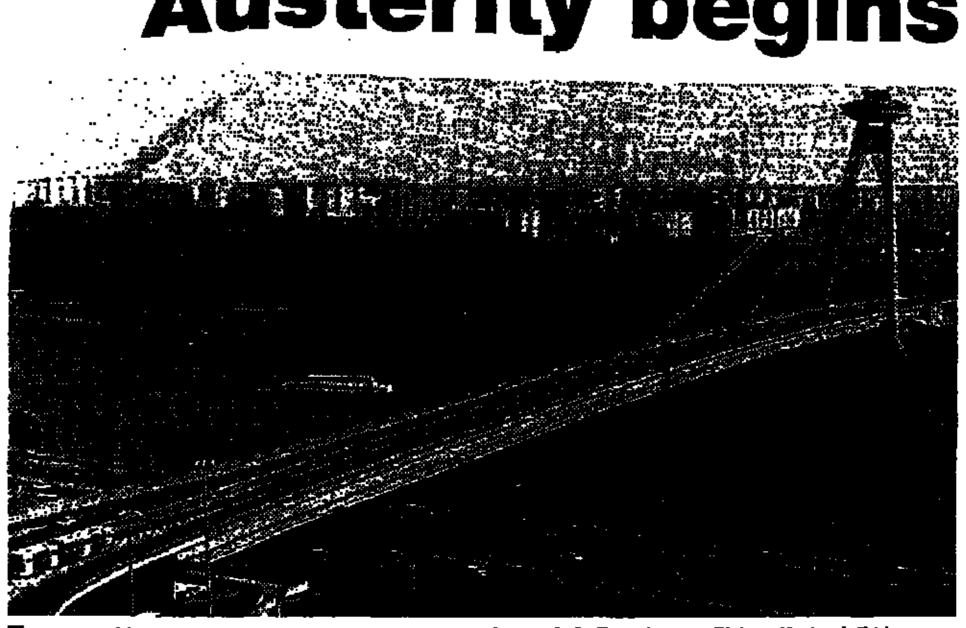
The austerity policies were painful but are beginning to pay dividends. Inflation this year should be well within the target range of 10 to 13 per cent set by the National Bank of Slovakia (NBS), and is expected to finish the year at the lower end of the range. This compares with 25.1 per cent last year when prices were boosted by the introduction of Value Added Tax and the costs of setting up the new state.

Above all, growth has resumed. Gross domestic product rose by 4.4 per cent in the first half of 1994 and by 3.7 per cent in the third quarter, from the deeply depressed levels of a a year ago, and should increase by three per cent for the year as a whole.

This is the first sign of growth after a 32 per cent decline in GDP over the previous four years. The decline was exacerbated by the divorce from the Czechs in January 1993 but was mainly due to the collapse of the Comecon markets. This exposed the structural weaknesses of an economy orientated towards steel, chemicals, arms and other heavy engineering products as well as cheap textiles and shoes for the Soviet market.

The clearest indication of recovering economic health can be seen in Slovakia's soaring foreign reserves. Official reserves, including gold, have surged from $470m at the end of 1993 to $2bn on November 9. Total foreign reserves in the banking system on the same date amounted to $3.4bn.

The reserves have grown much faster than expected. The IMF set a target of $1.3bn for currency reserves, excluding gold, by the end of 1995. In practice this component has already risen to $1.65bn, mainly due to exports which rose 8.5 per cent over the first half of the year. Steel and chemicals in particular are reaping the benefits of greater efficiency and a global upturn in those sectors.



The prospect brightens: the view over the Danube from the castle in Bratislava   Picture: Kester J. Eddy

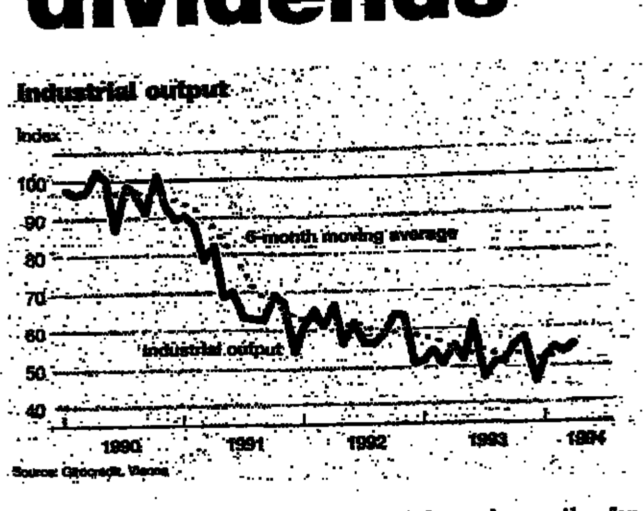
The recovery has been underpinned by three main factors: a tight monetary policy imposed by an increasingly assertive NBS; International Monetary Fund-inspired fiscal discipline; and recovery in the international economy. Foreign investors remain cautious.

The new republic has received $408m in direct investment to date, according to the Slovak national agency for foreign investment and development. Much of it is in small scale investment from neighbouring Austria. The big European multinationals such as Volkswagen, Siemens, Tetrapak and Rhône-Poulenc are present, as is Whirlpool of the US. But investments are still small.

Slovakia's overall financial standing was improved in July last year after pressure on the currency forced a 10 per cent devaluation of the koruna on July 10. On the next day Nomura Securities announced a Yen25bn ($250m) five year bond issue. In September this year Nomura reaffirmed its confidence in the country's economic future when it bought a 29 per cent stake in VUB Kupon, Slovakia's biggest investment fund.

Export-led growth started in the last quarter of 1993 and Mr Vladimir Masar, governor of the NBS, believes that healthy economic growth should continue in 1995. The incoming government is expected to be constrained by central bank prudence and the conditions attached to IMF loans. Despite the rhetoric of the general election, the reform process, and the mass privatisation programme will continue. "There is no choice," Mr Masar says.

Much remains to be done by the incoming government, however. In particular, a radical restructuring of the banking sector has not yet been implemented, though Ms Brigita Schmognerova, deputy prime minister in charge of the economy, says a lot of work has been done on it.



The plan aims to tackle the problem of inter-enterprise and enterprise-to-bank debt. The former is estimated at around SKK90bn, an enormous burden that mainly afflicts the huge state-owned concerns, especially arms and machinery producers. But, says Ms Schmognerova, "even good enterprises can be in secondary insolvency" as a result of debtors' inability to pay.

The plan also calls for removing the government from any supervisory role in the sector, leaving it in the hands of the NBS. The capital market is largely unregulated at present, with banks, pension funds, investment funds and stock markets operating in a void.

The government and the NBS are acutely conscious of the danger of bank failures, and have been warned by this year's collapse of three banks in the Czech Republic. "We haven't had any big problems yet, but it is only a matter of time," Ms Schmognerova says. "I hope the new government understands the necessity of building these institutions."

The key to more growth next year is whether the new government continues with the privatisation programme restarted by the outgoing administration. Next year's budget is dependent on SKK15bn of revenues from the National Property Fund, the body that administers privatisation. This money has been earmarked for debt servicing. If it is not forthcoming the budget deficit will be higher.

Mr Meciar's attitude to the new budget will hold the answers to some of the questions being asked of his incoming government. Mr Moravcik says the draft budget assumes GDP growth of 2 per cent "at least" and inflation below 10 per cent. It also aims for a budget deficit of 3 per cent of GDP, and unemployment of not more than 15 per cent (it is currently 14.5 per cent).

These targets, he says, "cannot be met without privatisation". Mr Meciar may be as aware of the need for a tight budget as Mr Moravcik but has so far not committed his Movement for a Democratic Slovakia (HZDS) and its allies in parliament to supporting the planned budget.

Observers say this could be a ploy. Mr Meciar may well support the budget in parliament, they say, and if things begin to go wrong during his administration he can always blame "somebody else's budget" for his difficulties. Mr Moravcik says: "what we have done could be undone, but there is an element within HZDS that may not allow it."

The next few weeks will show whether he is right.

Steel exporter replaces its old Soviet market, says **Anthony Robinson**

Asia fills the sales vacuum

When communist central planners decided to build an integrated steel plant in eastern Slovakia 30 years ago they chose a site more than 1,000km. from its future iron supply in the Ukraine and more than 500km. from the Ostrava coal basin in the Czech republic.

These logistical fundamentals, typical of Soviet-style central planning, remain in force. But the East Slovakian steel complex, VSZ, no longer sends a large part of its output to customers in the former Soviet Union.

Instead it sells nearly 30 per cent of its steel coils and sheets to far eastern markets such as Thailand and China, although the biggest share of output is still absorbed by the industries of close neighbours in the Czech Republic, Hungary and Poland.

The company, which employs more than 25,000 people, dominates the economy of eastern Slovakia and the steel maker, together with a host of privatised spin-off service and manufacturing companies, is by far the largest employer and source of finance for Kosice, the regional capital.

Throughout the world-wide recession VSZ managed to trade profitably, aided by relatively low input and wage costs. Now that the recession has lifted, however, profits are rising fast while costs remain constrained by low local wage levels, higher productivity and still relatively cheap raw materials.

Mr Peter Hrinko, who took over as chairman last December after a purge of the former management headed by Mr Zoltan Berghauer, says that profits this year are expected to triple to more than SKK1bn in 1995. The 1993 accounts show net profits of SKK490m, although this falls to SKK190m if calculated by conventional western accounting methods, according to Mr Hrinko.

Over the last two years, the company has been privatised. However, the National Property Fund remains the largest single shareholder, with 37.6 per cent of the 16.4m shares whose total capitalisation, according to calculations by Daiwa Research, was SKK5.54bn in November 1994. This makes VSZ the second largest Slovak company, after Slovnaft, the petro-chemical and refining group, accounting for 10.9 per cent of the total capitalisation of shares quoted on the Bratislava stock exchange.

The remainder of the shares are distributed among Slovak investment funds who hold 22.8 per cent, Czech Investment funds, who hold 9.9 per cent, and more than 600,000 small investors who mainly bought their shares through the coupon privatisation scheme.

In preparation for privatisation VSZ was re-organised as a holding company and many operations were hived off to separate companies. As so often in former communist Europe, the combination of reorganisation and privatisation was clouded by allegations of profiteering, theft of state property and political interference.

A supervisory board was set up to oversee the newly privatised entity. It is headed by Mr Julius Toth, finance minister in the post-independence Meciar government and a former finance director of the old state-owned company. Last December top managers who oversaw the hiving off and privatisation of both suppliers and sales companies were dismissed, following allegations that companies at both ends of the parent steel company had been making profits which rightly belonged to the parent company.

A new sales company, VSZ SOZ, was set up to oversee export sales which make up 80 per cent of the VSZ group revenues. It tightened financial discipline and payment terms as well as negotiations with potential foreign investors. The new management team and supervisory board have a substantial financial stake in the success of VSZ, which partly explains the drive to re-direct revenue streams back to the core of the group.

Throughout the recession VSZ continued to invest in raising the quality of its hot and cold rolled coils and sheets and building new export markets.

Major cost savings have come from replacing an energy-intensive slabbing mill by modern continuous casting equipment. Last year, the company became the first former Comecon steel producer to become a member of the International Iron and Steel Institute. It has also won quality awards which put it on a par with the best of European producers. The combination of higher prices and strong export-led demand are factors behind Slovakia's rising foreign currency reserves and the new-found stability of the Slovak crown.

The decision to diversify export markets, which was partly forced upon the company by protectionism in west European markets, has helped to strengthen the company's overall position.

The ability of West European producers to sabotage the European Commission's plan to cut surplus capacity in the current EU countries does not worry the managers of VSZ. For although surplus capacity lies behind the quota restrictions and anti-dumping levies imposed against eastern Europe and other low-cost producers VSZ only sold 15 per cent of its output, or 503,000 tonnes, to EU markets in 1993.

According to Mr Vladimir Balanik, vice president in charge of sales, sales into western Europe are more profitable than into more distant and competitive markets. But the company has no intention of trying to sell more into western Europe, although it is anxious to ensure that its existing sales to neighbouring Austria and the other new EU entrant Scandinavian states are not cut by new quota and other restrictions.

"Even without quotas we would not increase our sales to existing EU markets in 1995 because we want to preserve a good long term relationship with EU customers and keep our share of other markets too," Mr Hrinko adds. But the desire not to antagonise the EU also reflects the desire to keep good relations with the leading steel producers in Western Europe. Some, such as Hoogovens of Holland and British Steel, have already helped provide the know-how and equipment needed for modernisation and the down stream move into high value added coated products such as galvanised sheets and coils and tinned coils for the canning industry.

Meanwhile the acceptance of "voluntary" restraint in the west European market has led to determined efforts to retain traditional markets in central Europe. Sales to the Czech Republic, Poland, Hungary and former Yugoslavia last year amounted to 1.27m tonnes, 39 per cent of total exports of 3.29m tonnes.

The Czech Republic, which counted as part of the domestic market before the demise of Czechoslovakia, is the biggest single market. But the greatest success has been been in Asia, especially Thailand and China, which accounted for 26 per cent of total sales last year. The Middle East absorbed a further seven per cent while sales to the former Soviet Union accounted for a mere two per cent, underlining the change in Slovakia's export trade in the five years since the collapse of the Soviet bloc.

Ukrainian supply line

MORE than 90 per cent of the iron ore fed into the blast furnaces of the VSZ steel works in Kosice is transported nearly 1,100km. along the broad, Russian-gauge railway which connects the plant with Krivoi Rog in the eastern Ukraine.

After decades of open-cast mining, the once enormous iron deposit at Krivoi Rog has been turned into a gigantic pit more than 1km. deep.

Ancient electric locomotives laboriously pull laden wagons up the crumbling sides of the mine while equally ancient pelletising plants churn out enriched iron pellets in factories of Dickensian squalor.

The future, if there is one, lies in completion of a new pelletisation complex at Dolinskaya, 15km. from Krivoi Rog. Planned as a joint Comecon-wide co-operative venture, Dolinskaya has been on hold since the east Germans departed two years ago. They left 95 per cent of their contribution to the venture already completed.

But Bonn refused to throw more D-Marks at a venture whose economic viability was probably shaky at the outset and became more so as the date for completion receded into an uncertain distance.

Ukraine badly wants Dolinskaya to be completed. The new plant was planned to process the millions of tonnes of relatively low grade ore piled up in waste tips around the city of Krivoi Rog. It would also allow the obsolete and heavily polluting existing pelletisation plants to be closed down.

But the Slovak and Romanian steel industries also have an interest in securing future supplies of relatively cheap Ukrainian pellets to keep their own steel industries fed into the next century.

The alternatives of Brazilian, South African or Swedish pellets are all more expensive and less reliable than the long term supply contracts promised by Ukraine if only the project can be completed. Having come to this conclusion the Slovak government last year signed a new agreement with Ukraine under which VSZ and other Slovak companies will help to complete Dolinskaya in return for guaranteed supplies of 17m tonnes of pellets over the first 10 years of the new plant's life and the prospect of more supplies thereafter.

Anthony Robinson

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IN BRIEF

Sprint shares hit by profit warning

Shares in Sprint, the third largest telephone company in the US, fell 11 per cent yesterday following a warning that fourth-quarter income would be hit by price pressures in the long-distance market. Arthur Krause, executive vice-president, said long-distance income would fall from its third-quarter high of $165m. Page 20

Cariplo plans counter-bid for Rolo
A consortium formed by Cariplo, the Milan-based savings bank, last night announced plans to launch a L21,500-a-share counter-bid for 70 per cent of Credito Romagnolo (Rolo) of Bologna. Rolo is already facing a L20,000-a-share bid from Credito Italiano for 65 per cent of the company.
Cariplo said the bidding consortium would include IMI, the former state-controlled banking group, and Cassa di Risparmio in Bologna, Rolo's neighbour.

Proventus bids for rest of Aritmos
Proventus, the Swedish investment group, yesterday launched a SKr1bn ($132m) bid to buy out the 37 per cent outstanding stake it does not own in its subsidiary Aritmos, the sporting goods company which includes Puma. Page 18

Porsche on the offensive
Porsche, the loss-making luxury sports car maker, has set up a five-year DM300m ($191m) credit line to fund the launch of what Wendelin Wiedeking, chairman, described yesterday as the biggest product offensive in the company's history. Page 18

Bankers Trust faces sanctions
US regulators are within days of issuing civil complaints saying Bankers Trust violated anti-fraud provisions of securities and commodities laws in sales of derivatives to Cincinnati-based Gibson Greetings. Page 21

ASW in mill deal with British Steel
ASW Holdings, the Wales-based steel and construction products group, is to swap its Scunthorpe rod mill business for British Steel's fully-diluted 35.2 per cent stake in ASW. Page 23

Tiphook makes big cut in losses
Losses at Central Transport Rental Group, formerly Tiphook, fell sharply in the six months to October 31, as the UK company reported lower exceptional charges and an improvement in trading. Page 23

Record profit for Associated Newspapers
Associated Newspapers, publisher of the Daily Mail and the Evening Standard, has produced record revenues and trading profits despite a newspaper price-cutting war in the UK. Page 24

Sweb dismisses merger talk
South Western Electricity (Sweb), the UK utility, dismissed speculation that it could become involved in a merger or takeover as it reported a 35 per cent increase in interim pre-tax profits and a 24 per cent dividend rise. Page 24

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				Rises			
BMW	738	+	13	Air Liquide	727	+	14
Degussa	447	+	12.2	Canal Plus	871	+	15
Kaufhof	452	+	11.2	Schneider	383.8	+	8.8
Porsche	588	+	45	Falls			
Falls				Eaux Gen	713	-	24
AG Ind Verk	475	-	8	Fonc Lyon	688	-	24
Linotype	690	-	10	GTM Entre	379.5	-	12.5
NEW YORK ($)				**TOKYO (Yen)**			
Rises				Rises			
Bancorp	40	+	2¾	Nat Saiko	870	+	30
Dow Mills	37⅞	+	1⅛	[illegible]	320	+	15
Unilever	70¼	+	2¾	Mitsui M	472	+	22
[illegible]				Nikon Corp	934	+	28
JP Morgan	57¾	-	¾	Yuasa Corp	585	+	25
Morgan Stan	60⅞	-	⅞	Falls			
Sprint	27⅞	-	3⅜	Isetan	1750	-	40
PARIS (FFr)							

New York prices at 12.30pm.

LONDON (Pence)				Falls			
Rises				Albion	75	-	5
ASW	215	+	20	Sorcom	26	-	3
Acatos & Hutch	264	+	14	Cater Allen	447	-	23
Brooks	28	+	7	Dalmore Bass	518	-	22
Capps	170	+	10	Mercury Asset	878	-	67
Filmgo	162	+	14	Mid-States	82	-	4
Hardy	14½	+	1½	Northern Elect	984	-	26
Lovell (YJ)	88	+	7	N Ireland Elect	368	-	15
MAID	88	+	12	SMC	941	-	23
Midlands Elect	935	+	32	Virtuality	218	-	21
Polar	263	+	10	Warburg (SG)	699	-	59
Scotia	274	+	21				
Smiths Ind	476	+	13				
VideoLogic	59	+	8				

S. G. WARBURG & MORGAN STANLEY
Why they called the whole thing off
Page 22

Confident Siemens expects 20% advance

By Christopher Parkes in Frankfurt

Mr Heinrich von Pierer, Siemens chairman, yesterday forecast a 20 per cent surge in profits in the current financial year as Europe's biggest electrical and electronics group emerged strengthened from the recent cyclical and structural crisis.

Despite further pressure on prices, more costly rationalisation and unchanged earnings from financial investments, net profits would increase to about DM2bn ($1.3bn), he claimed. Sales would rise only about DM1bn above the DM84.6bn achieved in 1993-94, while order intake would increase by DM1.5bn to about DM90bn at most.

News of brightening horizons at Siemens gave a lift to the Frankfurt stock exchange and the group's own shares closed DM20.5 higher at DM623.

Mr von Pierer also announced his medium-term target of raising the group's return on equity to 15 per cent from 9.4 per cent in the year under review and an expected 10 per cent in the current financial year.

In response to criticism that Siemens is too heavily focused on maturing markets, he said world markets offered long-term growth of 5-7 per cent a year. The group had no great strategic needs such as acquisitions to enter new markets or to fill technological gaps, he added, although spending on stakes in joint ventures in Asia would increase.

Confirming a 17 per cent fall in profits in the year to September 30 – although extraordinary gains from disposals bolstered the final figure to DM1.99bn – Mr von Pierer noted higher productivity had already cancelled out the effects of higher costs and lower selling prices.

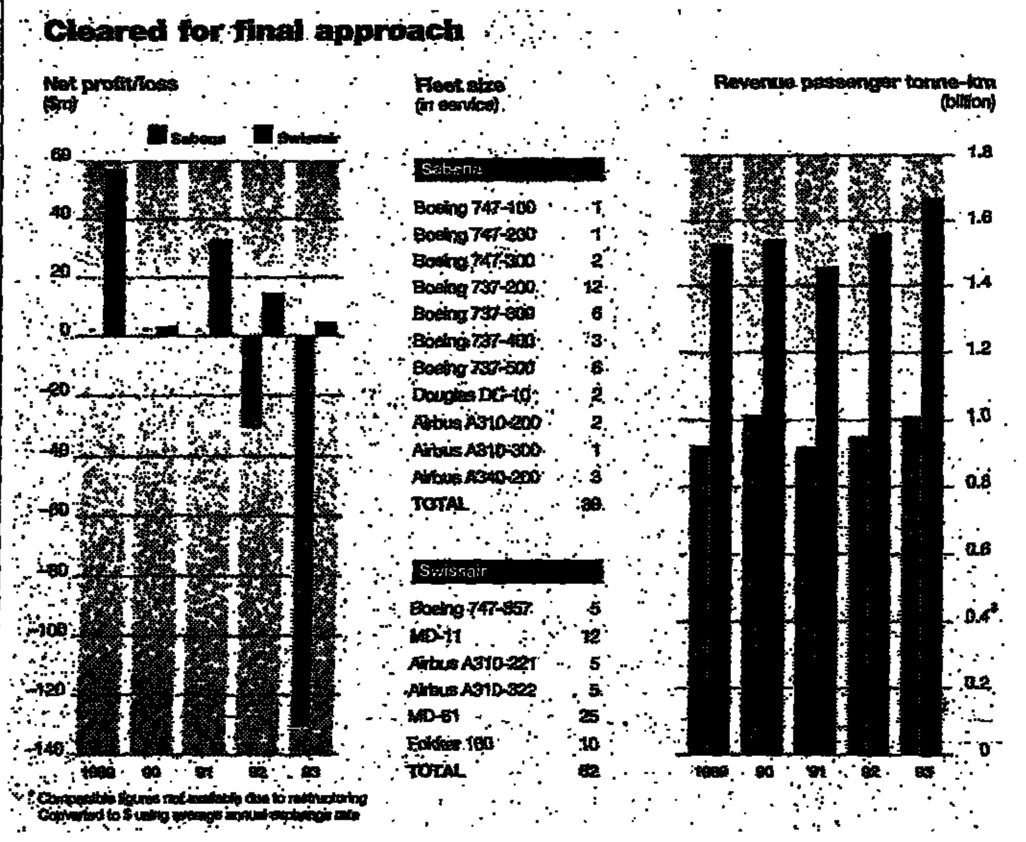
In an unusually detailed report on the year just ended, Siemens provided for the first time a break-down of earnings by division. This showed, as expected, falling losses in the Siemens-Nixdorf (SNI) information technology division and a much-reduced financial result.

The mainstay business in telecommunications equipment and services generated DM1.12bn in pre-tax profits, while SNI lost DM391m. Power generation and distribution earned DM104m, the industry division DM119m, transport equipment DM201m, components DM300m, medical technology DM239m, and Osram lighting – including the US Sylvania acquisition for the first time – DM291m. Profits from the energy and industrial products divisions fell because of lower sales, price pressure and heavy restructuring costs. Telecommunications earnings were hit by falling demand from east Germany and price cuts on public systems.

SNI reduced its loss by an estimated DM100m despite continuing price cuts and high restructuring costs. According to Mr von Pierer, lower prices cost the group DM2.8bn last year, while restructuring rose DM800m to DM2.7bn. Further rationalisation, including the loss of at least 12,000 jobs after 21,000 last year, would incur additional expense, although Mr Karl-Hermann Baumann, finance director, refused to elaborate. SNI would make its first operating profit in the current year, he added, although restructuring charges would mean a further net deficit.

Financial earnings would be about the same as in 1993-94, when they fell from DM1.85bn to DM1.3bn, he said. As announced earlier, the group will pay an unchanged DM13 dividend.
Lex, Page 16

Cleared for final approach



* Comparable figures not available due to restructuring
Converted to $ using average annual exchange rate

Swissair in Belgian talks to gain stake in Sabena

By Emma Tucker in Brussels and Michael Skapinker in London

A radical change in the ownership of Sabena, the Belgian national carrier, was on the cards last night as Swissair, Switzerland's national airline, confirmed it was in discussions with the Belgian government.

In a move that would provide Swissair with a secure foothold in the European Union's single aviation market, the airline's board of directors said it had asked the executive management to take steps towards closer ties with Sabena.

The board also stipulated the terms and conditions on which such a relationship would depend, but would not confirm reports that it was aiming for a 49 per cent stake in the Belgian carrier. "These matters are currently the subject of promising discussions between the two companies," Swissair said yesterday.

It now looks likely that Air France's 25 per cent interest in the Belgian airline will be bought, either by the Belgian government or Swissair, clearing the way for a deal to go ahead.

Air France owns two-thirds of Finacta, a Belgian holding company which has a 37.5 per cent stake in Sabena. The Belgian state owns 51 per cent of Sabena.

Although the French carrier is thought to be reluctant to end its links with Sabena, it has come under heavy pressure from the Belgian government to do so, and is understood to be ready to discuss terms under which it would sell its stake.

Mr Elio di Rupo, the Belgian communications minister, said negotiations would start "very soon". The Sabena board meets today, and an announcement could follow as early as next week.

In a letter to personnel, Mr Pierre Godfroid, the Sabena chairman, said: "Swissair wishes to acquire a significant shareholding in Sabena's capital with a view to strengthening our shareholders' equity."

Switzerland's main airline is desperate to find a base inside the EU so it can take advantage of the deregulated single aviation market. It is also worried that Switzerland's continued determination to remain outside the Union has resulted in unfavourable treatment at key European hubs.

"Swissair feels a bit out in the cold," said Mr Quentin Quarterman, an analyst at Smith New Court. "It finds it difficult to get new European destination slots, especially in Italy."

Pressure to find an entry into the EU increased after the collapse last year of the so-called Alcazar plan to merge Swissair, KLM Royal Dutch Airlines, Scandinavian Airlines System and Austrian Airlines.

Sabena, which last year made losses of BFr4.5bn ($146m), has meanwhile been seeking to pressure Air France into reducing or selling its minority stake in the state-owned national carrier to enable the formation of a partnership with another airline.

Sabena has long been seeking to forge new partnerships in an attempt to strengthen its international operations. Both Swissair and Sabena have code-sharing agreements with Delta Airlines of the US under which they link their route networks on booking systems.
US airline safety, Page 8

Britain plays for time on electricity takeover bids

By Michael Smith and David Wighton in London

The UK government said yesterday it would retain its "golden" shares in the 12 regional electricity distribution companies in England and Wales until March 31 1995.

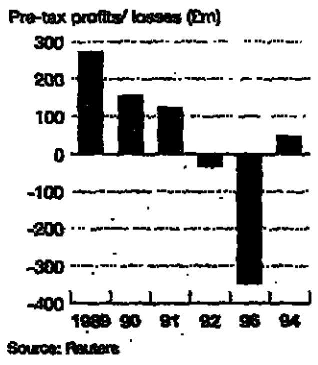
The statement was viewed in London markets as a stalling tactic while ministers considered the political implications of a possible bid by Trafalgar House, the property, construction, hotels and shipping group, for Northern Electric, the electricity distributor in the north-east of England.

It strengthened the view that a bid might be referred for investigation by the Monopolies and Mergers Commission, another way of deferring it. "The government may be unwilling to make the final decision on such a politically sensitive takeover itself," one analyst said.

Trafalgar House said yesterday that any offer would not be financed by another rights issue. It is thought that Northern shareholders would be offered high-yielding convertible shares with a cash alternative underwritten by Hongkong Land, Trafalgar's 25 per cent shareholder.

Trafalgar shares added 1½p to 73½p yesterday after it announced better-than-expected full-year figures. Pre-tax profits were £45.6m ($75m) compared with a loss of £347m in 1992-93.

Trafalgar House



Source: Reuters

Northern Electric is thought to have turned down a request to meet Trafalgar board members because the potential predator had made no formal proposals. Trafalgar announced on Wednesday it was considering a bid.

Northern yesterday requested an inquiry into the recent sharp rises in its shares. The London Stock Exchange said it was already "carrying out inquiries into the circumstances surrounding trading in the shares". Shares in Northern fell 26p yesterday to 980p yesterday, but most of the other 11 regional electricity companies (recs) rose further.

The political sensitivity of the possible bid was underlined when Mr Martin O'Neill, energy spokesman for the opposition Labour party, said Trafalgar was attracted to Northern because of a slack regulatory regime enjoyed by recs. He called for any bid to be referred. "The Monopolies Commission should be laying down ground rules for the future ownership of the recs once the government's special share has expired."

Trafalgar House is still thought likely to go ahead with a bid. Although it has not ruled out launching an offer this year, the likelihood is that it will wait until January.

Mr John Deane, finance director of Southern Electric, who suggested earlier this week that his company would consider mergers with other recs, yesterday ruled out bidding for Northern. "We would not want to get into a competitive bid," he said.

Speaking about Trafalgar's results, Mr Simon Keswick, chairman, said: "Much progress has been made and the company is well on the way to achieving a framework of strong central financial discipline combined with delegated operational authority." He said that Trafalgar was committed to developing "a portfolio of investments in infrastructure projects".

It is thought Trafalgar will argue that a takeover of Northern would provide it with the cashflow and additional skills to take advantage of the growth of design, build and operate schemes in Asia.
Observer, Page 15
Lex, Page 16;
Trafalgar result, Page 24

Swiss Re and CS Holding strengthen business links

By Ian Rodger in Zurich

Swiss Reinsurance, the world's second largest reinsurance group, is to take a 20 per cent stake in the derivatives arm of CS Holding, the financial services group built around Credit Suisse.

Swiss Re will buy the holding in Credit Suisse Financial Products, the CS subsidiary that is a world leader in financial derivative products, in a cash and shares deal.

The companies did not disclose details of the CSFP transaction, but as part of the consideration, CS Holding will raise its stake in Swiss Re from 5 per cent to 9 per cent.

At yesterday's SFr794 closing price of a Swiss Re registered share, a 4 per cent stake was worth SFr1.3bn ($1bn).

Credit Suisse and CS First Boston, which each own 50 per cent of CSFP, will see their capital stakes reduced to 40 per cent each.

Credit Suisse, however, will retain a 56 per cent voting stake, thereby ensuring that its balance sheet backs up CSFP activities.

CSFP has capital and retained earnings of slightly less than $1bn. Last year, its net income totalled SFr444m, and CS has said it has continued to perform very strongly this year.

Swiss Re and CS also announced a strategic alliance in financial and reinsurance products.

The two are launching a $200m insurance investment fund aimed at fledgling reinsurance companies, mainly in Asia and eastern Europe, and two other joint ventures.

A second joint venture will be formed between Swiss Re and Credit Suisse, to develop products for their common clients.

A third, between Swiss Re and CSFP, would develop and market derivatives on reinsurance products.

This is the second major strategic move at Swiss Re in the past few months. In September, it sold off its direct insurance interests for some SFr5.3bn.

Mr Lukas Mühlemann, a management consultant who joined the group as chief executive in August, said the group had decided to concentrate on its core reinsurance business.

Swiss Re said it felt that the application of financial derivatives to risk management in reinsurance was a strategic area of the future.

"We feel we have to be in it," the company said.

CS said it was finding that reinsurance was becoming an element in more and more of its business deals and saw the alliance with Swiss Re as an opportunity to develop new products.

INTERNATIONAL COMPANIES AND FINANCE

Porsche sets up DM300m credit line for new models

By Christopher Parkes in Frankfurt

Porsche, the loss-making luxury sports car maker, has set up a five-year DM300m ($191m) credit line to fund the launch of what Mr Wendelin Wiedeking, chairman, described yesterday as the biggest product offensive in the company's history.

The financing for new models – due in 1996 and 1997 and including the lower-priced Boxster aimed at younger buyers – was arranged by Dresdner Bank's Luxembourg subsidiary and J. P. Morgan, the company said.

Confirming a sharp reduction in losses to DM150m from DM239m for the year to the end of July, Mr Wiedeking said the business was still on course to break even in the current year. Overall sales were ahead of budget, he claimed.

However, he said car sales in the home market and France were tending to weaken, and complained that the introduction in Germany of a 7.5 per cent income tax surcharge next month was unlikely to encourage consumer spending.

Germany accounts for more than a third of Porsche marque sales, and is also the most important market for the Mercedes-Benz E500, which it builds on contract, and a souped-up joint-venture estate car, the Audi-Porsche Avant RS2.

Porsche has close links with the VW group, owner of Audi, through Mr Ferdinand Piëch, the VW chairman, who owns 10 per cent of Porsche.

Mr Piëch yesterday repeated his appeals for the German government to pay a scrapping premium for old cars to encourage new sales. He told VW workers that a lasting revival was not yet in sight in the domestic market.

However, worldwide group deliveries to customers rose 7.4 per cent in the first 11 months with most growth in the US and Asia, he said.

IRI looks at bids for flat steels producer

By Andrew Hill in Milan

The board of IRI, the Italian state holding company, yesterday agreed to examine the bids for Ilva Laminati Piani, the state-owned flat steels producer, in the hope of reaching a deal on the sale of the company before the end of the year.

Two consortia are understood to have submitted offers for ILP. One is an alliance between Lucchini, the private Italian steelmaker, Usinor Sacilor of France and Bolmat, a company formed by two Italian steel traders.

The other links Riva, another private steel producer, and Tarnofin, a group of local entrepreneurs.

IRI did not comment on the identity of the bidders or the content of the offers yesterday, and is set to discuss the sale again at another board meeting before Christmas. The holding company is under pressure from the European Commission to complete the sale of ILP before the end of the year, in line with a deal struck by EU ministers a year ago on state aids for Ilva. If the offers prove unsatisfactory, IRI could start private negotiations, or invite improved bids.

● Snia BPD, the quoted Italian chemicals and fibres company which is part of the Fiat group, is to invest about $50m in the construction of a nylon wrapping production line in the Basilicata region of southern Italy.

The new line, operated by Snia BPD's Caffaro subsidiary, will have total capacity of 4,000 to 5,000 tonnes a year and should start production in the middle of 1996.

The company said the investment would help strengthen its position in food packaging, while the group is planning to invest a further $15m over four years in research and development covering other market sectors as well.

The industrial and R&D investments are part of a programme of development in the region by Snia BPD, supported by the Italian state.

Proventus bids for rest of Aritmos

By Hugh Carnegy in Stockholm

Proventus, the Swedish investment group, yesterday launched a SKr1bn ($132m) bid to buy out the 37 per cent outstanding stake it does not own in its subsidiary Aritmos, the sporting goods company which includes Puma, the German sports shoe maker.

Proventus said it had acquired the 15.2 per cent stake previously held by the Swedish food group Cerealia, which had been Aritmos's second chief shareholder. It was offering SKr33 per share in cash for the remaining Aritmos shares, a premium of SKr5 over the last paid price of SKr28 reached before Proventus and Aritmos shares were suspended on Wednesday.

The total value of the Cerealia and remaining bid was SKr1.06bn, to be financed by bank borrowing, Proventus said.

Proventus, 70 per cent controlled by Mr Robert Weil, a Swedish private investor, has holdings in several industrial companies including Van Roll, the Swiss group. But it has made sporting and leisure goods its main interest since buying into Aritmos in early 1993.

Since it won control of Aritmos it has restructured the group, spinning off the Monark Stiga bicycles and Abu Garcia fishing equipment divisions into separate quoted companies in which Proventus retains majority shareholdings.

Aritmos is focused on Puma, a previously troubled company which returned to profit in the first six months of the year, Etonic, the second biggest supplier of golf shoes in the US, and Tretorn, a leading tennis ball-maker. Aritmos reported pre-tax profits of SKr224m in the first six months on sales of SKr3.5bn, a turnround from a SKr72m loss last year.

The bid was favoured by the Aritmos board, but it declined to take a definitive position until it had received an independent valuation. The offer is conditional on acceptances assuring Proventus of 90 per cent ownership by February 3, but Proventus said it reserved the right to complete even if the response left it short of 90 per cent.

Repola plans sale of up to 30% of Rauma engineering unit

By Christopher Brown-Humes in Stockholm

Repola, Finland's largest industrial group, yesterday announced plans to sell up to 30 per cent of the shares in its wholly-owned Rauma engineering subsidiary to outside investors.

It plans to list Rauma on the Helsinki stock exchange to create "a more independent and high profile position" for the unit. Repola's main operation is its forestry operation, United Paper Mills, which accounts for nearly 70 per cent of overall annual turnover of about FM27bn ($5.5bn).

Rauma has four divisions: Timberjack (forest machines), Sunds Defibrator (fibre technology), Neles-Jamesbury (industrial valves) and Nordberg (crushers).

The decision to sell part of the unit comes at a time when demand is improving in all four divisions due to economic recovery and an increase in machinery orders in the pulp and paper sector.

"The group is benefiting from its strong position in the North American and Asia-Pacific markets.

Exports and overseas activities account for about 90 per cent of Rauma's annual turnover of about FM8bn.

In the first eight months of 1994, Rauma doubled its operating profit to FM247m from FM124m as turnover climbed by an underlying 9 per cent to FM5.18bn.

The unit's order book at the end of August was up 75 per cent at FM4.81bn.

The Rauma shares, which will be sold to domestic and international investors next year, may be listed on an overseas bourse at a later date. Advisers to the issue are S. G. Warburg Securities and Prospectus Oy.

Repola's shares ended the day FM3.50 higher at FM85.50.

Berlin bank proposes to raise dividend

By Judy Dempsey in Berlin

Bankgesellschaft Berlin, Germany's sixth largest bank, intends to raise its dividend for 1994, Mr Hubertus Moser, co-chairman, said yesterday.

The plan to lift the dividend from last year's DM9 by at least DM1 was announced as the bank gave details of 10-month results.

The bank was formed through the merger last January of the state-owned Landesbank Berlin, the private Berliner Bank, and the private Berliner Hypotheken- und Pfandbriefbank mortgage banks.

The bank's consolidated business volume rose to DM234.5bn ($147bn) for the first 10 months of the year, compared with DM222bn during the first six months of its operations. Real comparative figures on a year-on-year basis will only be available in 1995.

Consolidated operating results rose to DM999m compared with DM734m from January to June. After taking into account risk provisions amounting to DM608m, operating results totalled DM669m.

The risk provisions, which amounted to DM326m during the first half of 1994, had been increased because of Bankgesellschaft's exposure of DM100m to Balsam, the sports grounds company which earlier this year ran up large debts. The bank had a further DM70m of exposure from the collapse of the Jürgen Schneider property company.

UK retailer beats forecast with 47% profits leap to £108.7m

By Neil Buckley in London

Asda yesterday claimed success for its strategy of repositioning itself as "Britain's best value food and clothing superstore", as it outstripped profit forecasts and reported underlying sales increases well ahead of its rivals.

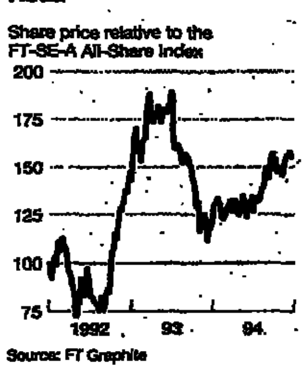
However, Mr Archie Norman, chief executive, warned that the watershed era of intense competition and falling margins in grocery retailing was likely to continue for another two years.

The UK's fourth-largest grocery retailer announced a 47 per cent increase in pre-tax profits for the 28 weeks to November to £108.7m ($169.8m) from £74m – against City forecasts of £97m-£106m.

Last year's figure was depressed by £14.4m losses at Allied Maples, the furniture and carpet subsidiary sold to Carpetland last December. But the core Asda chain's operating profits increased 17 per cent to £111.5m from £95.1m.

Mr Norman, who was the first leading industry figure to warn that the halcyon days of food retailing were over, disputed claims by rivals such as J. Sainsbury, Tesco and Argyll that the fall in industry gross margins in the past year was a one-off "step change".

Asda



Source: FT Graphite

"I don't know how they can say that with a straight face," he said. "This was supposed to have happened a year ago, but gross margins have continued to decline in the last four months."

He said pressure on margins would persist as long as growth in industry selling space outstripped demand growth. Food retailers would be forced to cut prices further to avoid sales falling in existing stores.

Tougher government planning restrictions, however, were likely to reduce the number of new superstores being opened by 1996-97, so the level of excess capacity would fall.

"The tightening of planning is the best thing that has happened to the industry," Mr Norman said.

Yesterday's figures demonstrated a further strong recovery in the fortunes of Asda, whose future looked in doubt in 1991 when it had debts of £1bn. The group has paid off borrowings which stood at £82.7m last April, and has net cash of £19.8m.

Asda is nearing the end of a three-year recovery programme designed to transform it from a clone of Sainsbury or Safeway into a store catering for "ordinary working people and their families, who demand value".

However, Mr Norman countered analysts' fears that growth would now slow, saying there was still considerable scope for raising the performance of Asda's stores.

The store refurbishment programme would continue, with some stores replaced, and new information technology introduced.

Total sales increased 8.4 per cent to £2.66bn. Like-for-like sales, which exclude new stores, increased 7.1 per cent – well ahead of Asda's bigger rivals.

The interim dividend increased from 0.55p to 0.61p, with earnings per share up from 1.79p to 2.62p.

Slovnaft offering returns next year

By Vincent Boland in Bratislava

Slovnaft, the Slovak petrochemical group that was forced to postpone a planned $100m international share issue because of domestic political instability and uncertainty on world stock markets, is to try again early next year.

The offering, which will be the first such deal by a Slovak company, was postponed in late November, but a senior official at Kidder Peabody, the US investment bank leading the offering, said recently that it was scheduled to be relaunched in the first quarter of 1995. "We hope there will be a more receptive market," he said.

The offering is due to follow a rights issue of up to 3.3m shares to existing Slovnaft shareholders. The state owns 80 per cent of the oil refining and chemicals group, and the National Property Fund of Slovakia, which administers state shareholdings, is believed to have indicated that it will not take up its allotment.

This will allow those shares to be offered to foreign institutional investors. The state's shareholding would then fall to about 65 per cent. Other Slovnaft shareholders include Slovakia's large investment privatisation funds.

There is still uncertainty as to the future of privatisation in Slovakia. The new government headed by Mr Vladimir Meciar and appointed this week has postponed a SKr60bn ($1.9bn) voucher privatisation programme in order to remove electricity and gas distribution company shares from the sell-off.

Investment fund managers say this will reduce the size of the voucher programme and dampen investor enthusiasm. The delay is expected to be for up to three months. Since Slovnaft's decision to postpone the share issue its supervisory board has been removed and replaced by allies of Mr Meciar.

Slovnaft's profits are expected to jump to SKr3bn this year compared with SKr1.6bn in 1993.

Slovak survey, separate section

[illegible]	[illegible]	[illegible]	[illegible]

Service Corporation International

has acquired

Plantsbrook Group plc

Morgan Guaranty assisted in the negotiations, co-managed the tender offer, and acted as co-financial advisor to Service Corporation International

JPMorgan

September 1994

This announcement is neither an offer to sell nor a solicitation of an offer to buy these securities. The offer is made only by the Prospectus Supplement and the related Prospectus.

December 6, 1994

7,700,000 Shares

Service Corporation International

Common Stock
(par value $1 per share)

Price $25.50 Per Share

Copies of the Prospectus Supplement and the related Prospectus may be obtained in any Jurisdiction from the undersigned and such other dealers as may lawfully offer these securities in such Jurisdiction.

2,310,000 Shares
International Offering

J. P. Morgan Securities Ltd.
Merrill Lynch International Limited
Cazenove & Co.

ABN AMRO Bank N.V. — BNP Capital Markets Limited
Commerzbank Aktiengesellschaft — Credit Lyonnais Securities
J. Henry Schroder Wagg & Co. Limited — Société Générale — UBS Limited

5,390,000 Shares
United States Offering

J. P. Morgan Securities Inc.
Merrill Lynch & Co.
CS First Boston
Dean Witter Reynolds Inc.

The Chicago Corporation — Raymond James & Associates, Inc.
William Blair & Company — A.G. Edwards & Sons, Inc.
Kidder, Peabody & Co. Incorporated — Legg Mason Wood Walker Incorporated
Montgomery Securities — Williams MacKay Jordan & Co., Inc.

This announcement is neither an offer to sell nor a solicitation of an offer to buy these securities. The offer is made only by the Prospectus Supplement and the related Prospectus.

New Issue/December 6, 1994

3,450,000 Shares

SCI Finance LLC

$3.125 Term Convertible Shares, Series A ("TECONS")
(liquidation preference $50 per share) guaranteed to the extent set forth in the Prospectus Supplement and related Prospectus by;
and convertible into Common Stock of,

Service Corporation International

Price $50 Per TECONS

Copies of the Prospectus Supplement and the related Prospectus may be obtained in any Jurisdiction from the undersigned and such other dealers as may lawfully offer these securities in such Jurisdiction.

J. P. Morgan Securities Inc. — **Merrill Lynch & Co.**

This announcement is neither an offer to sell nor a solicitation of an offer to buy these securities. The offer is made only by the Prospectus Supplement and the related Prospectus.

New Issue/December 6, 1994

$200,000,000

Service Corporation International

8 3/8% Notes due December 15, 2004
(Interest payable June 15 and December 15)

Price 99.247%

Copies of the Prospectus Supplement and the related Prospectus may be obtained in any Jurisdiction from the undersigned and such other dealers as may lawfully offer these securities in such Jurisdiction.

J. P. Morgan Securities Inc.
CS First Boston
Dean Witter Reynolds Inc.
Merrill Lynch & Co.

Service Corporation International

£185,000,000
Bridge Loan

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INTERNATIONAL COMPANIES AND FINANCE

Sprint shares battered by price pressure worries

By Clare Gascoigne in New York

Shares in Sprint, the third largest telephone company in the US, fell 11 per cent yesterday following a warning that fourth-quarter income would be hit by price pressures in the long-distance market.

Mr Arthur Krause, executive vice-president and chief financial officer, said long-distance income would fall from its third-quarter high of $165m, although it would remain above 1993's fourth-quarter figure of $133m.

The change from the strong growth seen in recent months knocked $3¾ off Sprint shares, which were down to $27⅝ in early trading.

"Competition for residential customers has intensified during the quarter and we have seen price pressures in the business market," Mr Krause said.

AT&T, the biggest long-distance phone company in the US, recently launched a marketing campaign. Sprint said it planned to target advertising and marketing spending in profitable areas, but refused to give further details.

Long-distance phone services account for the bulk of Sprint's income, amounting to 71 per cent of its $230m net income in the third quarter.

However, Mr Krause said Sprint expected growth in volume for the fourth quarter compared with a year ago, adding that volume in the long-distance division would increase by between 10 and 11 per cent.

The Kansas City-based group has formed a series of alliances in recent months to meet the growing competition in the US telecommunications industry. In October, it formed a partnership with three US cable companies to provide telephone, entertainment and information services.

On Tuesday, Sprint announced an alliance with Teléfonos de Mexico (Telmex) to provide services throughout North America.

Sprint said at the time its alliance with Telmex would help it create a seamless North American telecoms network. Sprint is already aligned with Call-Net, a Canadian long-distance carrier, and operates four cross-border fibre optic connections with Telmex between the US and Mexico.

Mr Krause said that local and cellular operations were continuing to perform "in line with expectations". Cellular operations, which accounted for 14 per cent of the company's net income in the third quarter, were its fastest growth area.

Investors welcome spin-off of General Mills restaurants

By Richard Tomkins in New York

Investors have welcomed the decision by General Mills, the US food group, to spin off its restaurant business and concentrate on breakfast cereals. Yesterday its shares rose $1⅝ to $57⅝ in early trading.

The restaurant business, forecast to have revenues of $3.2bn in the current financial year, has nearly 1,200 outlets, including the nationwide Red Lobster and The Olive Garden chains.

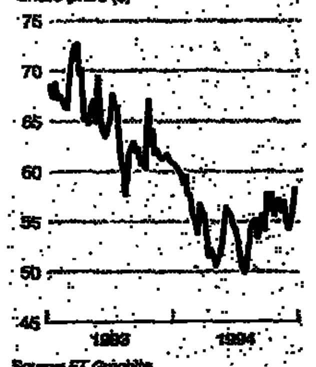
Late on Wednesday, General Mills said it was divesting the company to shareholders, giving them one share in the new business for each share in the existing company. The restaurant company, so far unnamed, will be quoted on the New York Stock Exchange.

General Mills said that after the split, it would become a tightly-focused consumer food group with expected sales this financial year of about $5.5bn.

The move completes a long period of reorganisation for

General Mills

Share price ($)



Source: FT Graphite

General Mills, during which it has disposed of numerous peripheral businesses including Kenner-Parker toys, Eddie Bauer clothing and Monet costume jewellery.

Mr Bruce Atwater, chairman and chief executive, said the latest divestment would enhance shareholder value because separate organisations with separate incentives would produce the strongest growth.

The split is due to take place in June next year when Mr Atwater, now 63, retires. In the meantime, Mr Stephen Sanger, the 48-year-old president of General Mills, has been appointed president and chief executive officer of the company. Mr Joe Lee, General Mills's 54-year-old vice-chairman, will be president and chief executive of the restaurant operation.

The spin-off comes as both parts of the business face tough competitive pressures. The food side of the business, in particular, has been suffering from tough competition in the US breakfast cereal market. Earlier this year, General Mills cut promotional spending and slashed prices in an attempt to increase market share.

The casual dining sector is also highly competitive in the US. Yesterday General Mills produced figures for its second quarter to November showing that restaurant profits had fallen by 3 per cent.

CAE sells military unit to GM subsidiary

By Robert Gibbens

CAE, the world's leading aircraft flight simulator maker, has sold its Link military division in the US to Hughes Electronics, a subsidiary of US carmaker General Motors, for C$213m (US$153m).

The Canadian electronics group has been trying to sell the loss-making Link division for some time. It represented nearly half CAE's total sales of C$1.1bn in fiscal 1994.

Link's problems, which are partly due to cuts in US defence spending, have depressed CAE's stock price and hurt overall performance.

The price compares with C$665m paid by CAE to Singer of the US, then controlled by American financier Mr Paul Bilzerian, for Link in 1988.

This year CAE took a C$396m charge for Link and announced more rationalisation. It will take a further C$30m special charge this year.

CAE retains certain Link products in ship machinery control, oil process control modelling, bio-medical and entertainment simulation. It has also retained US$160m of tax losses available against future US operations.

CAE said it would now be virtually debt-free and would concentrate on developing its simulator and electronic controls businesses worldwide.

Following the merger of Thomson-CFS and Rediffusion in Europe, only two big players remain in aircraft simulators.

Venezuela plans $1bn in oil-backed bonds

By Stephen Fidler, Latin America Editor, in Caracas

The Venezuelan government has been in talks with international investment banks over the possibility of next year issuing up to $1bn of bonds collateralised by oil revenues in the international market.

Mr Julio Sosa, finance minister, said yesterday the idea was to issue the first of the bonds – some $250m worth – in the first quarter of next year.

Six investment banks were "very interested" in the plans. "If we are successful we will place up to $1bn," he said.

The government plans to use the funds to repay some of its $9bn in non-restructured foreign debt in order to avoid a bunching of debt repayments in 1996, 1997 and 1998.

The debt to be repaid would be mostly bilateral debt owed to other governments, some of which has been in arrears and which amounts to some $5bn.

The government has separate plans to issue dollar-denominated paper in the domestic market, also to be collateralised by oil royalties and likely to carry a seven-year term and 10 per cent coupon.

This week, the government began issuing two-year paper in local currency in a bid to mop up the liquidity washing around the economy following this year's banking crisis.

The aim is to issue up to 160bn bolivars ($940m) of this paper. The government has temporarily stopped the central bank from issuing 90-day zero-coupon notes in a bid to encourage banks to buy the two-year notes.

Revolving credit facility for Saga

An $850m seven-year revolving credit facility for Saga Petroleum, Norway's largest independent oil producer, was signed yesterday in London, writes Martin Brice.

Banks offered to lend a total of $1.26bn, but the loan was not increased from its original $850m target.

The loan was arranged by ABM Amro Bank, Barclays Syndications and Deutsche Bank.

Saga was formed in 1972, has a BBB+/Baa3 credit rating and plans to apply for a stock exchange listing in the US in spring.

Nike to buy ice hockey equipment producer

By Robert Gibbens in Montreal

Nike, the US sports footwear and apparel group, is buying Canstar, Montreal, the world's biggest ice hockey equipment maker, for C$546m (US$395m) cash.

Canstar's largest shareholders, including chairman Mr Icaro Olivieri, own 46 per cent of the equity and will tender.

Nike's price is C$37.50 per Canstar share compared with Canstar's share price of C$17 in the market at Tuesday's close.

Nike said Canstar's principal brands, Bauer and Cooper, had global reputations and would give Nike entry into team sports equipment.

Canstar has a strong position in in-line skating, roller hockey and figure skating equipment. Nike said Canstar would operate as an autonomous unit with existing management.

JP Morgan warns of profits fall

J. P. Morgan, the US bank, warned that its profits for the last quarter of the year would not match those of the previous three months, due to weaker trading revenues, writes Richard Waters in New York.

The announcement signalled a weak end to the year generally for banks which are active in the financial markets.

The consensus among analysts had been for earnings of $1.69 a share in the latest period at Morgan, compared with $1.63 in the previous quarter.

In the final three months of 1993, a period when bond markets around the world remained strong, the US bank earned $1.92 a share.

In spite of the warning, the bank lifted its quarterly dividend by 7 cents, to 75 cents.

Clark USA cancels plans for fundraising

Clark USA, the oil refiner and distributor controlled by Toronto financier Mr Peter Munk, has withdrawn a US$250m financing because of weakening capital markets, writes Robert Gibbens.

Clark, wholly-owned by Horsham Corp, Mr Munk's main holding company, had planned to offer 7.5m shares publicly to raise $150m, and to issue $100m of senior notes.

The shares would have represented one-third of the total outstanding. The financing was to cover the acquisition of a Chevron refinery in the US.

"We won't sell our shares in a weak market," said Mr Paul Melnuk, Clark president. "Clark is a successful independent refiner and marketer and financially strong. We believe market conditions will improve later."

Clark earned $20.4m in the first nine months, compared with a loss of $4.9m last time.

Highs and lows of forex hedging

A strong yen worked for some Japanese groups, writes Gerard Baker

Corporate casualties of the yen's sharp appreciation in the past five years are a familiar story. Most of them are manufacturers who have been forced to cut margins as the prices of their exports have risen strongly.

However, the increasing availability of more sophisticated corporate treasury operations in the same period has meant that some companies have been able to offset some of those losses by hedging in the forward foreign exchange market.

At the same time, many businesses have seen their performance deteriorate as a result of large losses on the same contracts.

Precisely who were the winners and losers and how big were their gains and losses was unclear until this autumn, when companies were required for the first time to disclose in detail their profits on currency hedging. A new collation of company's results published yesterday by Tokyo Shoko Research, a private financial research institution, shows the extent to which Japanese businesses have used this particular derivative instrument, and how varied the performance has been.

Total gains among companies listed on the Tokyo Stock Exchange neatly balanced losses. Altogether, 211 companies recorded losses of a combined Y99.6bn ($992.1m) in the year to the end of September, as a result of the yen's rise, while 162 reported gains of Y95.4bn.

Transport companies, especially airlines, proved the biggest losers. Between them, companies in the transport sector lost more than Y56bn. Other losing sectors were textiles and steel. Net losses for 15 textile manufacturers were Y3.4bn, while eight steelmakers lost a net Y2.6bn.

As might be expected, securities companies recorded the largest net gains. Between them, 12 brokers managed gains of more than Y6bn. Other net gainers were transport and electrical engineering companies.

The country's two leading airlines both lost heavily as a result of long-standing contracts to purchase US dollars at exchange rates that were not realised. Japan Airlines (JAL) suffered the largest loss of any company, at Y43.9bn, four times as large as the next biggest loser, All Nippon Airlines (ANA) with losses totalling Y10.7bn.

JAL began hedging the dollar-yen rate in 1985, concluding contracts to buy a total of $3.6bn at an exchange rate of Y165.97 to the dollar at a series of stipulated dates. ANA made arrangements to buy $798m at an exchange rate of Y111.85. Both companies' moves were intended to insure them against a sharp depreciation of the yen in advance of contract payment dates for the purchases of foreign aircraft.

In fact, the yen rose well above the contracted levels and continued to rise. At the end of September 1994, the exchange rate stood at Y98.45 to the dollar.

On the plus side, Nomura Securities registered the largest net profit, at Y22.9bn, followed by Nippon Telephone and Telegraph at Y18.0bn.

The research organisation's study covered only forward exchange contracts. Companies are not as yet required to give full details of their other derivatives gains or losses.

Tokyo Shoko points out that the rapid growth in the use of derivatives in the past few years makes it harder to tell the true state of a company's financial operations. "Future contracts disclosed this time are just a very small part of off-balance-sheet derivatives dealings," he says. "Interest rate swaps are particularly in the dark, but of growing significance."

So the scale of most companies' dealings can only be guessed at. There is little doubt that in Japan, as elsewhere, many companies have suffered heavily in the past year from their derivatives trading.

The problem was glimpsed last month with the publication of results at Tokyo Securities, a small stockbroker. Its exchange losses alone totalled Y3.1bn, but in all the company lost Y32bn, almost a third of shareholders' capital. The company acknowledged then that the bulk of that loss came from fixed-interest derivatives trading.

Forward foreign exchange contracts Sept 1993-Sept 1994 (Ybn)

Top 10 winners . . . and losers

Nomura Securities	+22.9	Japan Airlines	-43.9
NTT	+18.0	All Nippon Airways	-10.7
Nikko Securities	+8.6	Tokyo Securities	-3.1
Dai-Ichi Securities	+6.6	Hirabo Corp	-2.7
Chiyoda Corp	+6.5	Silver Seiko	-2.2
Hitachi Zosen	+3.3	Mitsubishi Estate	-1.8
Honda Motor	+3.1	Fujita Corp	-1.7
Hitachi	+2.9	Daiwa House Industry	-1.6
Shikoku Electric Power	+2.5	Sanyo Denki	-1.6
Chubu Electric Power	+2.0	Hankyu Corp	-1.4

Source: Tokyo Shoko Research

Setback for Fuji Photo Film

By Michiyo Nakamoto in Tokyo

Fuji Photo Film yesterday cited fierce competition in the domestic market and the sharp appreciation of the yen as the main factors behind a 4 per cent drop in full-year non-consolidated recurring profits.

Revenues in the year to October 20 fell 6 per cent to Y798.6bn ($7.96bn) and recurring profits – before extraordinary items and tax – declined to Y120.9bn amid a difficult trading environment. Net profits were 4 per cent lower at Y67.5bn.

Trading was slow in all divisions, in spite of the introduction of new products such as the world's smallest and lightest 8mm video camera.

The company was adversely affected by intense competition both at home and abroad, as core markets remained stagnant amid sluggish private capital spending.

Price cuts undermined efforts by the company to reduce costs through rationalisation measures.

In spite of the moderate recovery in the domestic market, Fuji Photo Film expects the trading environment to remain difficult.

The company will report results for a shortened financial year as it is changing its year-end to March 31 from October 20. It is forecasting sales of Y365bn, recurring profits of Y50bn and net profits of Y27bn for the five months and 11 days to the end of March.

Roche, US laboratory in venture

By Clare Gascoigne

National Health Laboratories, the US clinical laboratory company, is to merge its clinical laboratories with those of Hoffman-La Roche, a division of Roche Holdings, the Swiss drug and chemical group, to create a $1.7bn company.

The new company will be "one of the largest clinical laboratories in the US", according to NHL.

It will have a total of 40 laboratories, 17 of which are currently owned by Roche.

Roche will bring its laboratory business, Roche Biomedical Laboratories, and will invest $186.7m in cash for its 49.9 per cent share of the new business.

Under the agreement, NHL shareholders will have a 50.1 per cent stake in the new company, and will receive $5.60 cash for each of their shares. The total payout to NHL is estimated at $475m.

NHL said the merger could mean cost savings of $90m in the first two years.

The healthcare industry has seen severe cost pressure as a result of the change to managed care.

Mr James Powell, currently president of RBL, will become president and chief executive officer of the new company; Mr James Maher, CEO of NHL, will become chairman.

The merger is subject to approval from NHL shareholders. MacAndrews & Forbes, which owns about 24 per cent of NHL, has agreed to vote for the merger.

NHL shares were down ⅛ at $13⅝ in early trading.

Tenneco to expand gas operations

Tenneco, the US energy and chemicals group, is spending $120m on two investments at Tenneco Ventures, a subsidiary of the company's gas division, Reuter reports from Houston.

It said it was making a $75m acquisition of Pennzoil's offshore properties and investing $45m in a Tenneco Ventures energy investment fund.

Tenneco said the two investments supported its strategy of redeploying capital into "higher-return growth opportunities in its natural gas, packaging and automotive parts businesses".

It said the Pennzoil agreement, involving offshore oil and natural gas properties in the Gulf of Mexico, would add more than 90bn cubic feet of natural gas equivalent to Tenneco Ventures' reserve base.

The exact size of the Pennzoil transaction would be determined once other parties had decided whether to exercise preferential rights to purchase the reserves.

It said the $45m earmarked for the energy investment fund would be invested in a combination of production, development and exploratory properties in conjunction with independent producers.

S African group to merge two gold mines

By Mark Suzman in Johannesburg

Randgold, the smallest and least profitable of South Africa's leading gold mining groups, plans to ensure the viability of its Durban Deep mine by merging it with the neighbouring Rand Leases mine.

Durban Deep, which had been scheduled to close earlier this year, will acquire all the issued shares in Rand Leases in exchange for 2.9m new Durban Deep shares.

Mr Peter Flack, Randgold chairman, said the transaction would significantly reduce running costs through the introduction of a single overhead structure for the two mines, and that he hoped to refinance the enlarged company in the new year.

Full details will be released in January. The transaction is subject to the approval of Durban Deep shareholders, who will meet in February to assess the plan.

● Normandy Poseidon, via its industrial minerals division, has acquired a 9.1 per cent interest in Queensland Metals Corporation, writes Nikki Tait in Sydney. The 10.8m shares comprising the stake were placed with the Adelaide-based mining and minerals group at A$1.30 each, for a total consideration of A$14m (US$10.8m).

● Shell Australia confirmed yesterday that it had completed the sale of a 30 per cent stake in the Worsley bauxite alumina joint venture in western Australia to Billiton Australia, part of South Africa's Gencor. The deal is part of Gencor's purchase of much of the Shell group's international metals portfolio. Shell Australia said a further 6 per cent interest in Worsley had been sold to Reynolds Australia Alumina, part of the Reynolds Metals Company, and that it expected to complete the sale of its remaining 1.5 per cent stake to Nissho Iwai, a Japanese trading and publishing company, by the end of December.

● MIM, the Queensland-based metals group, said it planned to increase Australian copper sales by 50 per cent, to 90,000 tonnes next year. It said it was aiming to fill some of the shortfall which is likely to arise when CRA's Southern Copper refinery and smelter at Port Kembla close in January.

HK regulator cracks down on cash commissions

By Simon Holberton in Hong Kong

The Securities and Futures Commission (SFC), Hong Kong's corporate regulator, yesterday said it would outlaw the payment of cash commissions to investment fund managers in cases where trusts and mutual funds are offered to the public.

In a decision which Jardine Fleming, Hong Kong's biggest retail fund manager, described as a "sledge-hammer to crack a nut", the SFC said that all cash rebates to fund managers would have to be credited to the funds from July next year.

It said that fund managers could keep cash commissions, or rebates, where they manage funds on a discretionary basis, such as pension funds.

In this case the client will have to consent to the fund manager retaining rebates and be given a periodic quantification of the value of rebates retained.

The SFC said that managers could retain "soft dollar" commissions. These are where a stockbroker provides free research, computer software for portfolio analysis, and hardware such as Reuters services.

The test would be that the benefits received are demonstrably beneficial to investors.

Mr Stuart Leckie, chairman of Wyatt, the pensions consultant, said: "I believe it is an outcome that is very satisfactory under all circumstances."

Fund managers said they could live with the decision although it meant that management fees would probably have to rise. Some also said the end to rebates would put pressure on fixed commission brokerages in Hong Kong.

The SFC foreshadowed its inquiry into commissions and "soft dollars" this summer. It raised a storm of controversy in Hong Kong, pitting Jardine Fleming (a recipient of rebates) against Fidelity which is not allowed to accept them but which does take "soft dollars".

Mr Henry Strutt, Jardine Fleming's managing director, said: "We'll have to look at it carefully to see what steps we can take to mitigate the consequences."

Of Jardine Fleming's US$23bn under management some US$4bn is managed in authorised Hong Kong trusts. About US$2bn is subscribed from abroad so the manager may have to de-authorise some funds, or seek to place them outside the SFC's jurisdiction to avoid the ruling.

Mr Ian Boyce, managing director of Schroders in Hong Kong, said his firm will have to look at the fees it charges if rebates are to end.

"It is not going to be the end of the world for us, rebates are not that important to us. But we will be looking closely at our fee structure," he said.

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Euroyen deals meet strong Japanese demand

By Graham Bowley

Strong Japanese investor demand for yen-denominated assets brought a further flood of issuance to the euroyen sector yesterday as the Republic of Austria launched two offerings of yen-denominated bonds, totalling Y120bn.

Elsewhere, two borrowers revived the asset-backed sector of the sterling market, with deals by Bristol & West, the UK building society, and a group of UK housing associations.

There was also a rush of new issuance by Brazilian borrowers in the dollar sector to beat the feared imposition of higher capital requirements and higher taxes on capital coming into the country, which would significantly increase the cost of raising capital on international markets, dealers said.

Austria launched a Y60bn offering of six-year bonds priced to yield 2 basis points over Japanese government bonds, and Y60bn of 10-year bonds priced to yield 11 basis points over Japanese government bonds.

There has been a significant amount of issuance in yen over recent months, as borrowers have taken advantage of strong demand for yen assets.

INTERNATIONAL BONDS

Japanese investors have shunned foreign currency assets this year to avoid foreign exchange loss. Financial liberalisation in Japan has also had an impact, allowing the primary placement of euroyen paper directly into Japan.

"There is also a feeling among Japanese investors that there is no upward pressure on interest rates, so they are happy to invest at these levels," said one trader.

Austria's two offerings were placed almost entirely with Japanese investors, joint lead manager Daiwa said.

The offering's two-tranche form was a result of distinct patterns of demand from different investor sectors, a Daiwa syndicate official said.

The six-year issue was placed with Japanese non-life insurance companies and regional co-operatives, while the longer-dated offering was sold to life-insurance companies and public sector funds.

"Some of the big life-insurers have significant cash positions and they are looking very aggressively to invest these funds," he said. The proceeds from the offering were not swapped, sources said.

Clips No 1, a special-purpose vehicle set up by Bristol & West, launched a £150m offering of bonds of varying maturities backed by a portfolio of commercial loans originated by the UK building society.

The main tranche was a $123.75m issue of 15-year bonds offering a discounted margin of 31 basis points over Libor.

Lead manager Goldman Sachs said the offering was sold to investors in the UK and France, predominantly banks but also insurance companies and money funds.

UK Rents No 1, a special-purpose vehicle set up by a group of medium-sized housing associations, launched £36.598m of bonds due April 2025, backed by future rental income.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Bco.Bamerindus do Brasil(a)‡	250	(a1)‡	99.18R	Dec.1997	1.00R	-	Swiss Bank Corp.
EMPECSA	75	10.875#	99.66R	Dec.1999	0.875R	+325(WI 5yr)	Citibank International
Klabin(b)	60	(b1)#	99.50	Dec.2002	1.00	+460(7¾%-97)	Citibank/ JP Morgan Secs.
Serrana de Mineracao(c,l)	50	13.375#	99.065R	Dec.2002	1.50R	+570(WI 5yr)	Merrill Lynch International
Banco Bandeirantes	50	12.00#	99.881R	Dec.1997	0.75R	+445(7¾%-97)	West Merchant Bank
YEN							
Republic of Austria(s)*	60bn	4.75	100.22R	Dec.2004	0.325R	+11(4½%-04)	Daiwa/ LTCB International
Republic of Austria*	60bn	4.40	100.05R	Jan.2001	0.275R	+2(5.9%-00)	Daiwa/ LTCB International
STERLING							
CLIPS No.1(d)‡	123.75	(d1)	99.80R	Dec.2009	0.30R	-	Goldman Sachs International
UK Rents(No.1)(e)	36.598	8.10#	100.0248R	Apr.2025	0.625R	+75(8¾%-17)	Nomura International
D-MARKS							
Dresdner Finance Netherlands	300	7.26	101.50	Jan.2000	2.00	-	Dresdner Bank

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. *Unlisted. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Acting jointly and severally with Bamerindus Leasing Arrendamento Mercantil. a1) 6-mth Libor +350bp. b) Callable and puttable in Dec.97 at 99.875% and 100.20% respectively. b1) 12⅞% to Dec.97 and 12¾% thereafter. c) Acting jointly and severally with two subsidiaries. Puttable on 28/12/99 at 98.72%. d) Commercial Loans on Investment Property Securitisation. Collateral: Bristol & West B/S commercial mortgages on investment properties. Callable on coupon dates after 5 yrs at par. 10% clean-up call, Expd.av.life: 3.8 yrs. Class M1: £16½m, 3mth Libor +110bp, 100R, av.life: 7 yrs, bookrunner: UBS. Class M2, £5¼m, 3-mth Libor +130bp, 99.73R, av.life: 7 yrs, Goldman. Class B: £4½m, terms undisclosed, Goldman. d1) 3-mth Libor +28bp. e) Amortises form 6/10/05: average life 24 yrs. l) Long 1st coupon. s) Short 1st coupon

Short-dated US Treasuries outperform the long end

By Lisa Bransten in New York and Martin Brice in London

The recent trend of yield curve flattening was broken for the second day yesterday morning as the short end of the market outperformed the long bond.

By midday, the benchmark 30-year government bond was down ⅛ to 95¾ yielding 7.865 per cent but the two-year note was ⅛ higher at 99¼, yielding 7.509 per cent.

The market reacted quickly to a survey by the Federal Reserve Bank of Philadelphia that showed a decline in the index of December business activity to 28.9 per cent. It is the second month running that the index has shown a drop in activity.

That data, combined with low inflation figures released on Wednesday, added to trader speculation that the Fed would not raise interest rates when its open market committee meets on December 20. Earlier this week, opinion was mixed on whether the Fed would boost rates again before the end of the year.

The Philadelphia Fed's survey is especially important because it is an early indicator of trends for December.

The spread between two-year and 30-year Treasuries widened for the second consecutive day, reversing a recent trend and causing a steepening of the yield curve. Economists view flattening of the curve as an indication that the market expects economic slowing. The curve had flattened steadily since the Fed raised rates by 75 basis points in November.

■ UK government bonds were lifted yesterday by a rise in German government bonds and figures showing a slowdown in UK retail sales growth.

Retail sales volumes were unchanged in November from October and up 2.5 per cent from November 1993, against a year-on-year rise of 3.0 per cent in October.

GOVERNMENT BONDS

Mr Chris Anthony at Hoare Govett said: "The sales figures have killed off any fears of an imminent interest rate rise." He said investors were likely to examine closely the CBI survey and PSBR figures due out this morning.

Trading in gilts yesterday was very thin, and dealers pointed to five tap stocks which were announced on November 28, but have not been sold and still overhang the market.

Dealers also point to strong resistance to prices rising above a level of 102¾ and although yesterday the market touched this ceiling, it bounced down each time.

The yield spread over German government bonds tightened from 118 to around 115 basis points, and dealers said there may be some switching into bunds at this level.

The December long gilt future moved up ⅛ to around 102¾ in late trading.

■ German government bonds edged higher but prices remained within the range of recent trading levels.

Mr Stefan Schneider at S. G. Warburg in Frankfurt said the movement of bunds yesterday mimicked US Treasuries. He said: "I cannot see any major domestic event shifting sentiment in the bund market."

Analysts point to next Tuesday's meeting of the Federal Reserve's policy-making open markets committee as the next event which may have an effect on bunds, but say that until then trading is likely to stay within the 89.50 to 89.87 range.

The spread under Treasuries shifted out from 43 basis points to 45 in slow trading and the March bund futures contract on Liffe rose by 0.03 on the day to 89.76.

■ Italian government bonds rose yesterday, in what some analysts attributed to investors covering their short positions.

Mr Simon Maggs at IBJ said: "The government will almost certainly fall apart at some point. The budget will almost certainly go through and then the market will focus on what will happen in the political situation."

He said investors were made nervous by yesterday's announcement that the government was to provide L11,000bn to help repair flood damage, and its intention to pay for this increased spending by larger taxes had not allayed investors' fears.

The March bond futures contract on Liffe moved to around 99.49 in late trading, a rise of 0.81.

Bankers Trust faces sanctions

By Laurie Morse in Chicago

US regulators are within days of issuing civil complaints saying Bankers Trust violated anti-fraud provisions of securities and commodities laws in sales of derivatives to Cincinnati-based Gibson Greetings.

The complaints will be significant beyond the Bankers Trust case because the agencies involved reportedly have determined that the derivatives at issue – complex forms of interest rate swaps – can be considered both futures and securities, and are thus within the regulatory purview of the Commodity Futures Trading Commission and the Securities and Exchange Commission.

Until now, swaps have been considered neither securities nor futures, and the swaps industry has grown rapidly in a largely unregulated environment.

Although legislative attempts to tighten the oversight of swaps have died in the US Congress this year, the two agencies appear to be extending their reach independently through their enforcement action against Bankers Trust.

In particular, a determination that over-the-counter derivatives are futures would require swaps dealers to comply with the same tough anti-fraud and sales practice rules that govern listed futures and options. The CFTC exempted swaps from much of the US commodities law in 1992, but reserved the right to enforce its anti-fraud provisions if a swap was determined to be a future.

The CFTC is also drafting suitability rules for derivatives customers, and is in the midst of a public comment period on that issue.

A source familiar with the Bankers Trust complaints said the bank is close to reaching a settlement with the agencies, and is expected to agree to sanctions and pay fines.

Bankers Trust earlier this month entered into an extensive written agreement with its primary regulator, the Federal Reserve, that requires remedial action on the way it markets derivatives to corporations. That agreement did not specifically mention Gibson Greetings.

Last month, Bankers Trust also settled a lawsuit brought by Gibson Greetings that complained that the bank failed to disclose essential information about derivatives sold to the company.

Cazenove plans India fund

By Bethan Hutton

Cazenove is hoping to raise $50m from investors in London and the Gulf for a new closed-end Indian investment fund, to be managed by Chescor.

The Oryx fund will concentrate on medium-sized and smaller companies, with more than 70 per cent in listed companies and about a quarter in unlisted investments.

The fund will be based in Guernsey, but listed on the London Stock Exchange. Investments will be made through Mauritius, to take advantage of its double taxation treaty with India. The fund aims to be 90 per cent invested within six months of launch.

Chescor is a small London-based investment house which has already been involved in setting up an India fund for Martin Currie.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.500	09/04	93.1900	+1.150	10.11	10.32	10.53
Belgium		7.750	10/04	96.0200	–	8.35	8.27	8.31
Canada *		9.000	12/04	99.3000	+0.300	9.11	9.05	9.10
Denmark		7.000	12/04	89.3700	–0.250	8.80	8.86	8.79
France	BTAN	8.000	05/98	100.9500	+0.010	7.66	7.27	7.47
	OAT	7.500	04/05	95.6900	–0.170	8.12	7.96	8.14
Germany Bund		7.500	11/04	99.8400	–0.140	7.52	7.43	7.40
Italy		8.500	08/04	80.7100	+0.540	11.92†	11.71	11.70
Japan	No 119	4.800	06/99	103.6400	–	3.82	3.90	4.06
	No 164	4.100	12/03	96.8460	–0.120	4.60	4.65	4.74
Netherlands		7.250	10/04	97.1800	+0.040	7.66	7.52	7.56
Spain		10.000	02/05	90.2400	+0.040	11.35	11.19	11.20
UK Gilts		6.000	08/99	90–21	+5/32	8.46	8.47	8.41
		6.750	11/04	88–15	+5/32	8.49	8.53	8.55
		9.000	10/08	104–06	+6/32	8.48	8.51	8.57
US Treasury *		7.875	11/04	100–17	–6/32	7.78	7.84	7.94
		7.500	11/24	95–23	–13/32	7.87	7.91	8.08
ECU (French Govt)		6.000	04/04	83.9900	–0.150	8.55	8.36	8.52

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime — Treasury Bills and Bond Yields

Prime rate	8½	One month	5.48	Two year	7.58
Broker loan rate	6½	Two month	5.82	Three year	7.68
Fed.funds	5⅝	Three month	5.81	Five year	7.74
Fed.funds at intervention	-	Six month	6.57	10-year	7.80
		One year	7.18	30-year	7.86

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	111.87	111.80	-0.14	111.88	111.78	98,227	35,555
Mar	111.12	111.10	-0.14	111.24	111.06	86,427	113,310
Jun	110.50	110.42	-0.12	110.50	110.44	370	2,810

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jan	Calls Mar	Calls Jun	Puts Jan	Puts Mar	Puts Jun
110	1.30	-	-	0.06	0.62	-
111	0.61	1.43	-	0.16	0.90	-
112	0.20	0.95	-	0.48	1.30	-
113	0.06	0.56	-	1.05	1.80	-
114	0.02	0.33	0.56	-	-	-

Est. vol. total, Calls 17,486 Puts 10,535. Previous day's open int., Calls 191,546 Puts 142,901.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	89.62	89.74	+0.01	89.89	89.59	56975	174859
Jun		89.12	+0.01			0	785

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
8950	0.42	0.87	1.07	1.23	0.18	0.63	0.83	1.61
9000	0.19	0.61	0.82	1.01	0.45	0.87	1.08	1.89
9050	0.07	0.41	0.60	0.82	0.83	1.17	1.36	2.20

Est. vol. total, Calls 13164 Puts 6548. Previous day's open int., Calls 163270 Puts 121333

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.58	99.47	+0.79	99.65	98.53	27341	44373
Jun	97.98	98.77	+0.79	97.98	97.98	5	20

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
9900	2.02	2.44	1.55	2.67
9950	1.74	2.22	1.77	2.95
10000	1.44	2.00	1.97	3.23

Est. vol. total, Calls 1046 Puts 2161. Previous day's open int., Calls 14244, Puts 11855

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	86.40	86.44	+0.02	86.52	86.33	20,161	49,812
Mar	85.75	85.85	-	85.92	85.70	10,451	23,594

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102-19	102-28	+0-08	102-30	102-19	538	18394
Mar	101-28	102-06	+0-08	102-13	101-25	29566	108493
Jun		101-06	+0-08			0	0

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
102	1-35	2-07	1-23	2-59
103	1-03	1-45	1-55	3-33
104	0-42	1-23	2-30	4-11

Est. vol. total, Calls 2121 Puts 282. Previous day's open int., Calls 20800 Puts 30563

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	81.20	81.18	-0.12	81.28	81.18	2,072	2,320

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	99-27	99-25	-0-04	99-31	99-25	15,715	54,521
Mar	99-10	99-08	-0-03	99-15	99-08	366,318	339,815
Jun	98-26	98-27	-0-04	99-00	98-25	1,093	12,838

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	108.43			108.47	108.41	1366	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Thu Dec 15	Day's change %	Wed Dec 14	Accrued interest	xd adj. ytd		Low coupon yield Dec 15	Dec 14	Yr. ago	Medium coupon yield Dec 15	Dec 14	Yr. ago	High coupon yield Dec 15	Dec 14	Yr. ago
1 Up to 5 years (24)	119.75	+0.13	119.84	1.98	10.59	5 yrs	8.49	8.55	5.62	8.49	8.53	5.84	8.68	8.73	5.92
2 5-15 years (22)	140.49	+0.25	140.14	1.93	12.29	15 yrs	8.36	8.39	6.38	8.50	8.54	6.51	8.72	8.75	6.72
3 Over 15 years (8)	158.20	+0.38	157.61	2.49	12.05	20 yrs	8.32	8.36	6.49	8.50	8.54	6.54	8.63	8.67	6.73
4 Irredeemables (6)	179.66	+0.21	179.28	1.59	13.71	Irred.†	8.40	8.41	6.63						
5 All stocks (60)	137.80	+0.23	137.38	2.05	11.78										

Index-linked							Inflation 5% Dec 15	Dec 14	Yr. ago	Inflation 10% Dec 15	Dec 14	Yr. ago
6 Up to 5 years (2)	186.90	+0.07	186.77	1.08	5.07	Up to 5 yrs	3.95	3.98	1.91	2.63	2.65	1.01
7 Over 5 years (11)	173.76	+0.20	173.41	1.04	4.81	Over 5 yrs	3.86	3.87	2.93	3.85	3.87	2.74
8 All stocks (13)	174.24	+0.19	173.91	1.03	4.82							

Debentures and Loans						5 year yield Dec 15	Dec 14	Yr. ago	15 year yield Dec 15	Dec 14	Yr. ago	25 year yield Dec 15	Dec 14	Yr. ago
9 Debs & Loans (77)	129.73	+0.32	129.32	2.16	10.90	9.47	9.48	7.24	9.41	9.44	7.56	9.36	9.40	7.68

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Dec 15	Dec 14	Dec 13	Dec 12	Dec 9	Yr ago	High*	Low*
Govt. Secs. (UK)	91.94	91.85	91.49	91.89	92.09	106.97	107.04	89.54
Fixed Interest	109.60	109.52	109.49	109.75	109.67	130.49	233.87	106.50

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Dec 14	Dec 13	Dec 12	Dec 9	Dec 8
Gilt Edged bargains	114.1	100.6	106.1	90.7	95.4
5-day average	101.4	102.7	101.8	99.0	101.0

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or –	1994 High	1994 Low
"Shorts" (Lives up to Five Years)							
Treas 13pc 1995		11.93	6.82	100⅝	–⅛	107¾	100⅝
Exch 3pc Gas 1990-95		3.04	6.01	98		103¼	97¼
10¼pc 1995		10.04	6.87	102⅛xd	+⅛	107	102
Treas 12¾pc 1995‡‡		12.13	6.86	105⅛		113¾	105⅛
Funding 3½pc 1999-4		4.71	7.28	74¼xd	–⅛		
Conversion 9½pc 2004		8.86	8.58	106	+⅛	125¾	
Treas 6¾pc 2004‡‡		7.62	8.48		+⅛		
8½pc 2005		8.48	8.46		+⅛		97
Conv 9½pc 2005		8.92	8.54	106½	+⅛	125½	102¼
Index-Linked (b)							
2pc '96	(67.9)	2.41	4.01	208¾	+⅛		
4⅝pc '98‡‡	(135.6)	2.88	3.79		+⅛		
2½pc '01	(78.3)	3.34	3.80				163½
2½pc '03	(78.8)	3.45	3.82				
[illegible]							

Other Fixed Interest

[illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on December 15

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
United Kingdom 7⅛ 97	5500	100¼	100⅝	–⅛	7.02
Abbey Natl Treasury 8 03 £	1000	92⅝	92⅞	+⅛	9.30
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day-Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Warburg and Morgan Stanley: the marriage is off

John Gapper and Richard Waters on the problems that dogged the proposed merger

Warburg is left in the lurch

The collapse of the merger talks between Morgan Stanley and SG Warburg is an unfortunate Christmas present for both sides. It questions not only whether they should have foreseen the obstacles, but whether Warburg can recover its poise as an independent investment bank.

In the aftermath of yesterday's statements, some Warburg employees questioned whether senior executives, including Lord Cairns, its chief executive, should resign. Yet whether they stay or go, Warburg will find it harder than before to maintain the argument for its independence.

The collapse of the talks was sudden, and happened after Mercury Asset Management's board and some of its senior fund managers started to digest the implications of the deal. Fund managers were concerned to protect their independence, while directors wanted to ensure shareholders were not disadvantaged.

MAM's board, led by Mr Hugh Stevenson, its chairman, brought in Lazard Brothers, the merchant bank, to advise on the deal after it was made public. The most obvious question was how MAM's minority shareholders – who own the 25 per cent of its equity not held by Warburg – would be treated.

The problem was that the merger offer appeared to value Warburg's equity below its market price, implying that MAM was not being fairly valued. Mr Philip Gibbs, analyst at BZW, estimates that at $60 per Morgan Stanley share, the implied valuation of Warburg was £1.53bn, or 695p per share.

This was well below yesterday's opening price of 798p. Mr Gibbs says that applying a price earnings ratio to MAM similar to other US fund management acquisitions, and giving a premium for Warburg's investment banking business, a takeover bid ought to value the group at 950p per share.

Such calculations made MAM call for what it yesterday termed "an appropriate offer" for minority shareholders, so giving them a chance to exit at what seemed a fairer price.

Although Morgan Stanley did not want to pay too much, its executives were prepared to accept some premium.

One senior Morgan Stanley executive says that gaining control of MAM was "the principal attraction" of the merger because the US firm wanted to gain a stabilising influence on its earnings. The merger gave it a chance to acquire MAM at a lower price than it would pay for a US fund management business.

Morgan Stanley executives believe the gap between the premium MAM wanted to pay to minority shareholders, and its own suggestion, was bridgeable. "We were perfectly prepared to recognise that retiring it [the minority stake] would have resulted in a premium," says one.

But another problem was dogging the proposed merger of MAM and Morgan Stanley's fund management arm. MAM fund managers who were told of the merger last week wanted to keep independence from Morgan Stanley's operations. This became the main point at issue at a meeting in London on Tuesday.

"It turned out we had a different view. We believed that the businesses could be brought together over time – it wasn't a case of jamming them together next week," says one senior Morgan Stanley executive. The US firm thought that unless the operations were brought together – for example in technology and marketing – the point of the merger was lost.

The negotiations ran into other problems, and while Warburg executives do not believe these were likely to be insuperable, they could have been big enough to block a deal – even without the asset management complications.

One difficulty was that the two investment banks were having problems deciding how businesses would be run. Although senior executives had an outline view before the deal was made public, there was still some tough bargaining to be done among more junior managers over who would have control.

Both banks are adamant that there were no "black holes" discovered in the due diligence process that made either bank nervous about linking with the other. Indeed, some Warburg executives claim they were reassured by the view Morgan Stanley took of the strengths of their business.

The collapse of the deal leaves questions facing both banks, given their rhetoric about the reason for linking together. If they will no longer be able to combine to form the strongest global investment bank, how seriously can they claim to be global players if they now remain independent?

The questions are loudest for Warburg, whose shareholders would have taken a third of the equity in the new holding company. The bank was seen to have tacitly admitted that it could not achieve global scale by itself, and had failed to penetrate the US securities market seriously.

Warburg's executives were yesterday arguing that this was a logical fallacy. They believed that the would have achieved a leap of five years in their strategy through the merger. They now think that they can simply resume their previous strategy of independent growth, accepting slower expansion.

Yet this reasoning did not cut much ice yesterday within Warburg's London offices yesterday, where the collapse led to an angry inquest. "I think the merger was driven by two things: panic by people on the board who don't understand this business, and greed," said one Warburg employee.

Some Warburg employees said the handling of the deal had exposed weaknesses in the bank's management. "There's a lack of confidence in the people in top management," said the same executive. One problem is seen as the detachment of Sir David Scholey, chairman, from day-to-day management.

Whether or not it can pacify its employees, the bank may have difficultly persuading its shareholders and analysts to accept a resumption of the old strategy. This appears to be what they will attempt, with executives arguing that only Morgan Stanley was an appropriate merger opportunity.

The most obvious alternative would be a merger with another "bulge bracket" firm from New York such as Goldman Sachs or Merrill Lynch. Yet Warburg executives believe that Goldman's more hard-driving and aggressive culture would not match its own, and neither's businesses would fit its own.

But bids from other banks remain possible, especially given the attention Warburg has drawn to its own valuation. Some potential acquirers yesterday played down the chance of an immediate bid, although they said it might become more attractive if Warburg was further weakened.

One rival said delay might be the best strategy. "If I wait a week or two it might get worse," he said. He also argued that it would become easier to take business from Warburg on the argument that "a bank that handles its own business so badly should not be advising anyone else".

A further difficulty for Warburg is that the circumstances under which the merger collapsed draws attention to divisions between it and MAM. The fund management firm drew attention to its independence this year when it penalised Warburg over its parent's handling of Enterprise Oil's bid for Lasmo.

The obstacles thrown by MAM in the way of the merger can hardly improve relations between the two companies, although Warburg executives insist that MAM's independence is vital to its success, and the value of its 75 per cent stake. Yet the embarrassment could provoke it to try to take MAM back into full ownership.

For Morgan Stanley, questions over the future appear less pressing. The firm's executives implied that buying MAM at a discount to the price seen in US acquisitions was the main attraction of the merger. Morgan Stanley has already built a larger European operation than Warburg's US arm.

Even so, the merger's collapse brings back questions for Morgan Stanley. With strong capital and ambitions, it has built up a reasonable presence in Europe, but it still has a long way to go, and it will now have to grow organically. Its failure to gain control of MAM may also prompt it to search for another fund management acquisition.

Probably the most bewildered participants in the entire week-long drama will be the other investment banks and brokers of the City of London. After Warburg's announcement last week, many reflected on how long they could last under independent ownership, and without integrating.

The Warburg-Morgan Stanley incident has demonstrated once again that mergers in the volatile and often temperamental world of investment banking are easier dreamed up than achieved. If the fundamentals of the market have not changed, rivals may at least resolve to take their time.

In the wider world of global investment banking, rivals may be relieved that a strong global force is not created at a single stroke. Yet the fact that two firms were prepared even to consider such a bold move shows how high the stakes are becoming in the battle to build truly global firms.

Additional reporting by Nick Denton and Norma Cohen

■ THE MOOD AT WARBURG

The old guard marches on

The collapse of talks comes just as Warburg employees were beginning to come to terms with the merger and even, some of them, relish the broader horizons it would open up.

"Personally I am disappointed. What was being offered here was a brave new world," said one employee. He said that the chance of a more dynamic future outweighed the threat of job cuts, at least for younger staff. But staff say the company is "split down the middle". One spoke of the existence of an old guard who "do not have much to gain from this and have much to lose. They will be able to prolong the status quo," he said.

Some New York staff and Eurobond traders, the Warburg employees most exposed to rationalisation, have been given a stay of execution and will also be relieved.

There is a general recognition nevertheless that the collapse of merger talks is not the end of the story. Either another buyer, or Warburg itself, will force job cuts.

When or how has become even more uncertain than it was a week ago, contributing to the sense of insecurity at Warburg.

"We now have to go through a period where we worry about whether there will be another bid. We are in limbo," said one bond specialist.

Bewilderment has sometimes turned to anger. "We have been led up the garden path and then shoved back out again," said one employee.

Faith in management has been seriously shaken. Cynics at Warburg are betting, not on markets, but on the future of chief executive Lord Cairns, after what one described as "the bizarre course" of the abortive merger talks.

Graham Bowley and Nicholas Denton

■ WARBURG AND MAM

Subtle shift in the relationship

When S.G. Warburg sold off a quarter of its holding in Mercury Asset Management in 1986, it was trying to make a point.

Not only did it want to reap some of the value of its fast-growing fund management arm, it wished to underscore the independence of MAM. At a time when too many questions were being asked about dealings between the fund management and stock brokerage arms of merchant banks, independence seemed like a good message to send to the public.

Warburg has underlined the message by siting its headquarters in Finsbury Avenue in the City of London and those of MAM just on the edge near London Bridge.

Now, officials at Warburg may well be wondering whether MAM has become a little too independent. With a potentially valuable merger between Warburg and US investment bank Morgan Stanley thwarted by the independence of MAM directors, the relationship between the two firms may be permanently altered.

"MAM have always seen themselves as very independent of Warburg. Not only for regulatory reasons but because their business in character is very different from that of Warburg," said a fund manager at a rival firm. "At the level of the MAM board, they will not welcome losing their independence."

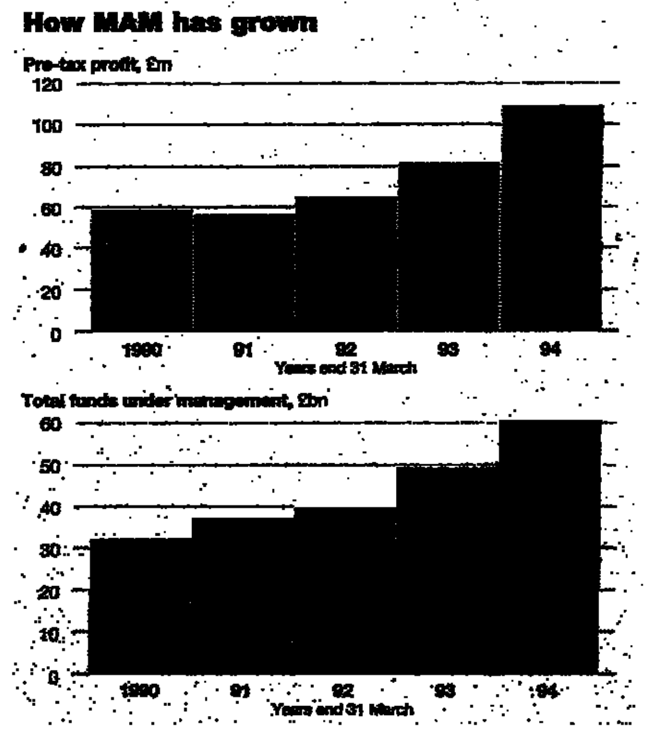
Neither Warburg nor MAM would comment on suggestions that the Morgan Stanley deal has badly strained relations between the two. "There are relationships here which go back 20 years," one MAM insider said.

But the head of a rival fund management firm argues that "there must be some bad blood between those two buildings".

"There are bound to be a few recriminations," adds Mr Philip Gibbs, securities industry analyst at Barclays de Zoete Wedd.

And, industry experts say, MAM may well emerge with the upper hand. Over the past seven years, MAM has consistently accounted for the lion's share of Warburg's earnings, Mr Gibbs notes. Any effort by Warburg to force MAM directors to toe the line could encourage the departure of some of its leading lights – thus undermining MAM's value. Within Warburg, MAM has its own board and executive committee, and considerable autonomy in setting its own strategy and expansion. Its executive committee reports to the Warburg board, of which its chairman, Mr Hugh Stevenson, is a member.

How MAM has grown



MAM has periodically asserted its independence in ways that have proven embarrassing to Warburg. For instance, MAM directors were so irritated at the way Warburg handled the purchase of shares in oil company Lasmo, for which the bank's client, Enterprise, was making a hostile bid, that it cut its dealing with Warburg's brokerage arm for several weeks.

MAM and Warburg are now both expected to mull the contentious issue of whether the minority stake in the fund management company ought to be purchased by Warburg. One objective would be to ensure that MAM cannot thwart a marriage should another suitor emerge.

Alternatively, some analysts suggest that Warburg may wish to sell its MAM holding and re-invest the capital in its investment banking business.

Norma Cohen

■ WHAT NOW FOR MORGAN STANLEY?

Back to the drawing board

An opportunistic move to pick up a leading UK fund management company on the cheap? Or part of a broader strategic move to outflank other US investment banks on the international stage?

Whatever the real motivation behind Morgan Stanley's interest in Warburg, the collapse of the proposed deal inevitably raises questions about its international aspirations.

Morgan Stanley remains a relative minnow in asset management, though bigger than Wall Street rivals such as Goldman Sachs or Salomon.

The bank has set a high priority on building this business further: in the increasingly capital-intensive and volatile investment banking business it remains a relatively stable source of fee income, says Mr Richard Fisher, chairman.

Morgan Stanley executives yesterday ruled out buying another UK merchant bank – but, notably, did not rule out buying another asset management firm outside the US.

Meanwhile, in the broader business of investment banking – raising capital for companies and others, distributing and trading securities and advising on mergers and acquisitions – Morgan already has highly developed international operations. Two out of five employees are based overseas, with 700 in Tokyo, 400 in Hong Kong and nearly 2,000 in London.

Gaps remain: in equities research in Asia, for instance, or in its relationships with UK companies and equities distribution in Europe. Morgan executives say these weaknesses can be met by growing its existing business, rather than buying a competitor.

Revenues from outside the US, largely from trading and corporate advisory work, are already stronger than most other US investment banks.

In 1993, thanks to a good year in Europe's bond markets, Morgan Stanley made pre-tax income of $720m (£439m) in the region – 60 per cent of its worldwide income, and far more than the £179m reported by Warburg. "The profitability of our operations outside the US, as measured either by return on capital, or profit per professional, has been at least as big as in the US," says Mr Phil Duff, Morgan's chief financial officer.

The US and European bond markets have been volatile this year. But Mr Fisher says: "We have made the decision to fund the growth through this difficult period." Staff growth outside the US bears this out this year: numbers have grown by 15 per cent, at a time when US investment banks generally have been shrinking.

If, however, financial markets remain weak for long, then those investment seem certain to be scaled back.

Richard Waters

■ UK COMPANY NEWS DIGEST

■ POLAR: Pre-tax profit of this USM-quoted electronic components company increased 43 per cent from £1.31m to £1.87m in the year to September 30. Sales rose 30 per cent to £27.6m (£21.2m) and operating margins grew from 6.2 to 6.8 per cent. The increased final dividend of 3.1p makes a total of 5.4p (4.85p). The shares yesterday added 10p to 263p. Polar aims to move its shares to the main market in the new year.

□ OPTOMETRICS: The sudden demise of one of its larger components customers hit interim results of Optometrics Corp, the USM-quoted optical systems group. On sales down from $1.88m to $1.72m (£1.04m), pre-tax profits in the period to September 30 declined by $58,000 to $46,000. Earnings per share came to 30 cents (70 cents).

■ CRH ACQUISITION: The Irish building materials group, has acquired Schuster's Block and Bosse Concrete Products, of the US, for $11.8m (£7.1m) cash, including debt. Schuster's is the leading concrete masonry producer in Indianapolis, Indiana, while Bosse makes patio products and precast concrete at its plant near Atlanta, Georgia. CRH said the two companies' combined trading profits amounted to $1.9m on turnover of $16m.

□ BRISTOL WATER: The company is to restructure its regulated business as a result of the industry's price review, writes Roland Adburgham. The move is likely to result in redundancies of about 10 per cent among its workforce of 600. The industry regulator has set the company's K factor, which determines by how much prices can rise above inflation, at 1 per cent for each of the next five years. "To ensure at least the matching of the efficiency criteria underlying the determination, it will be necessary to take a number of actions including a major internal restructuring programme," said Sir John Wills, chairman. The company reported a 15 per cent rise in pre-tax profits to £4.73m (£4.12m) for the six months to September 30, helped by a £700,000 profit from the sale of non-operational properties. The interim dividend is 12p (11.1p); earnings per share were 49.2p (44.8p) basic and 45.3p (39.9p) fully diluted. Turnover rose 4 per cent to £31.2m. Operating profits were £6.55m (£6.4m), after a £1.1m provision for costs of reorganising and reducing staff levels.

COMPANY NEWS: UK AND IRELAND

Package marks further rationalisation of European steel industry

A change of focus for ASW

By Andrew Baxter

ASW Holdings yesterday announced a clean break with its past by swapping its Scunthorpe rod mill business for British Steel's 35.2 per cent stake in ASW, the Cardiff-based steel and construction products group.

The transaction is part of a complex package of deals which mark a further rationalisation of ownership in the European steel industry and give ASW its first steel plants in continental Europe.

They include a 7-for-20 rights issue at ASW, to raise about £28m after expenses, priced at 160p and payable in two instalments. It has been fully underwritten by SG Warburg.

Other details of the package are:

● The disposal by ASW of the Scunthorpe mill to British Steel in effective exchange for the repurchase of 13.4m ordinary shares (20 per cent of ASW's ordinary shares) and 30.8m £1 cumulative convertible preference shares.

The stake held by British Steel dates back to the flotation of ASW in 1988. British Steel said the consideration for the rod mill of £50m broadly equates to the book value of its shareholding in ASW.

● ASW will acquire for about £51m an 80 per cent stake in Société Des Aciers D'Armature Pour Le Béton (SAM), the steel mesh and reinforcement coil (recoil) unit of Usinor Sacilor.

ASW will pay £32m cash and issue 10m new shares to Usinor, giving the French group a stake of about 12 per cent in ASW. The Cardiff-based company will, in certain circumstances, buy the rest of SAM for up to £19m cash.

● ASW will invest £17m in its Cardiff rod mill, to produce all its present reinforcement bar (rebar) – now produced at Tremorfa bar mill – and recoil in one operation. A related £2.1m restructuring charge is expected for next year.

Sir Alan Cox, ASW's chief executive, said that, in looking for a better ownership structure in the industry, it was inevitable to question whether wire rod was a strategic business for ASW. It retains a small wire rod operation in Cardiff.

British Steel already supplies steel billet to the Scunthorpe mill, which is on the same site as its main Scunthorpe works and employs about 320 people. It will be run as one business with British Steel's Templeborough rolling mill in Rotherham.

Sir Alan said the SAM acquisition would turn ASW into "a genuine company in the European sense". SAM had group sales of FFr2.32bn (£270m) last year, and is forecasting sharply higher profits this year. It has already been extensively restructured, but Sir Alan said there was considerable scope for improving its operational cash flow.

ASW shares rose 20p to 215p yesterday. Because the shares held by British Steel will be cancelled, The number of ASW shares outstanding will be reduced from 83m to 82.6m even after the rights issue.

The directors said the transactions would enhance earnings per share in 1995 and forecast an unchanged 3p final for 1994, making 6p for the year.

Greencore ahead 17% after lower interest cost

By John Murray Brown in Dublin

Greencore, the sugar, malting and milling group, reported a 17 per cent increase in pre-tax profits from I£33.7m to I£39.5m (£38.9m) for the year to September 30, reflecting a sharp reduction in net interest costs and further efficiency gains.

Sugar, agribusiness and other food operations all recorded increases in profits. Only the malting business suffered a fall, reflecting difficult marketing conditions and high domestic barley prices in 1993.

Group sales increased to I£494.5m (I£393.8m) including I£175,000 (I£1.46m) from discontinued activities giving an underlying rise of 3 per cent.

This in part reflected a fall in sugar sales, following poor crop yields in 1993. Retail sugar demand, about 25 per cent of total sugar volume, showed a small decline in a difficult market.

Mr Bernie Cahill, chairman, said agribusiness was responding well to reforms of the EU's Common Agricultural Policy. He welcomed the agreed reduction in "set aside" – the land farmers are required to take out of production – from 15 per cent to 12 per cent, which would result in increased processing volumes.

He added that the outlook for the Irish and Belgian malt businesses was improving on the back of the upturn in the beer and spirits markets. Flour and consumer food operations increased volumes, particularly exports.

Interest costs were cut by I£5m to I£4.26m, underlining continued strong cash flow and reduced working capital requirements.

Earnings per share increased 13 per cent to 38.4p (33.9p) and a final dividend of 6.2p is proposed for a total of 9.9p (8.8p).

CTR cuts loss to £7.2m as exceptionals plummet

By Christopher Price

Losses at Central Transport Rental Group, formerly Tiphook, fell sharply in the six months to October 31, declining from £179.7m to £7.2m, as the company reported lower exceptional charges and an improvement in trading.

The interest charge was halved at £20.6m (£40.6m) and the results were additionally flattered by a £19.3m foreign currency gain on its US bonds.

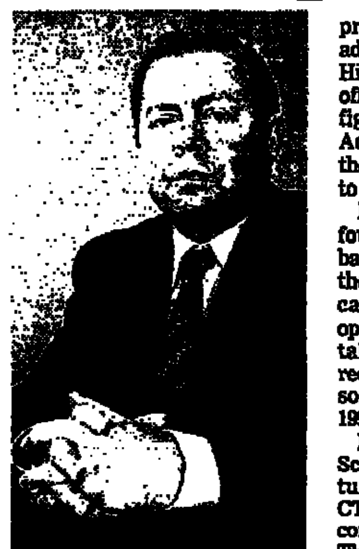
Mr Ian Clubb, the non-executive chairman who joined the board three months ago, said the results marked a turning point in the group's fortunes.

In the past year, CTR has parted with several directors, run up hefty losses, been forced to sell its container leasing division and had the ignominy of its chief executive, Mr Robert Montague, facing bankruptcy charges.

Turnover fell to £73.4m (£155.7m) for operating losses of £2.2m (£139.1m). However, the company said continuing operations showed turnover ahead 8.5 per cent for operating profits of £9m, compared with losses £2.4m.

Losses per share fell from 163.4p to 6.5p.

Sales in the trailer rental division improved by 9 per cent to £67.1m as it pushed through rental rises of 3.4 per cent. Utilisation rates also improved. In the rail wagon rental business, turnover rose £200,000 to £5m.



Ian Clubb: results are turning point in group's fortunes

Exceptional charges fell from £154.6m to £14.9m. This included £2.2m in redundancy and reorganisation costs. CTR relocates this weekend from its prestigious central London address to smaller premises in High Wycombe with a central office staff of 30, a tenth of the figure employed at its peak. Administrative expenses over the half declined from £49.4m to £22.9m.

Mr Clubb said that with a four-year agreement with its bankers only recently begun, the group had enough working capital to continue its operations and maintain capital investment. A financial reconstruction was planned at some stage, probably during 1995.

However, a contract with Schmitz, a German manufacturer of trailers with which CTR has a long-term supply contract, was not provided for. The contract would cost the group £161m over the next five years, with the next payment of £18m due in April 1997.

"With our improving cash flow and market position, I don't see this being a problem at all," said Mr Clubb.

He reiterated the board's view that the personal finances of Mr Montague, who has two bankruptcy writs outstanding and reputed debts of some £40m, were his affair. "But he would not be working for us if he did not add value," he added.

GWR seeks easing of growth limit as profits rise

By Raymond Snoddy

GWR, the Bristol-based commercial radio group, yesterday renewed its appeal to the government to relax the restrictions on station ownership.

Mr Ralph Barnard, chief executive, attacked what he called "the ludicrous anomaly" preventing GWR from expanding because it had the maximum 20 licences even though together they reach only 8m people. Other radio companies, with fewer but larger licences, could reach 16m to 17m people.

"We are being forced abroad by this. We would much rather spend our energies and our money in the UK," said Mr Barnard, who expressed surprise at how long it was taking the government to deal with what appeared to be a simple issue.

He was speaking after the group announced trebled pre-tax profits of £3.1m (£900,000) for the year to September 30 on turnover more than doubled at £21.7m.

Earnings per share came out at 38.4p (18.4p) and a proposed final dividend of 7.5p makes a total of 13p (9p).

During the year acquisitions increased GWR's potential audience from 3m to 8m with the addition of stations such as Radio Trent in Nottingham and Derby and the Mid Anglia group with stations in Peterborough, Cambridge and Kings Lynn.

The acquisitions accounted for £1.1m of total operating profit of £2.8m (£1m). The results did not include any contribution from GWR's 17 per cent stake in Classic FM which is not yet paying a dividend.

Mr Henry Meakin, chairman, said that the present year had begun well "with revenues ahead of budget and strongly ahead of last year".

James Capel, GWR's broker, yesterday raised its forecast for the current year from £4.3m to £4.5m.

Exceptionals help Acatos advance 40% to £14.2m

By David Blackwell

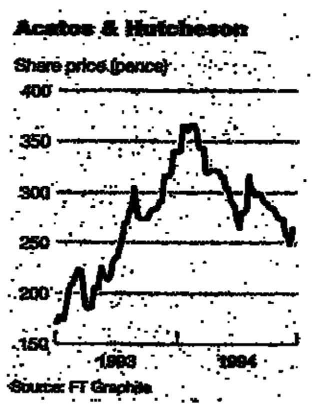
Rising edible oils prices kept margins under pressure at Acatos & Hutcheson, the manufacturer of edible oils and fats.

Pre-tax profits for the year to October 2 rose from £10.2m to £14.2m. However, the group pointed out that the 40 per cent gain was mainly the effect of exceptional charges in both years relating to disposals and restructuring.

Operating profits were flat at £13.7m, despite a 12 per cent increase in sales to £249m (£222m).

The shares closed 14p ahead at 264p.

In addition to raw material price increases, the group faced increased competition on prices, citing two other refiners seeking to lift volumes "with little regard to profit". The group said it had "responded as required to maintain our market share".



The bulk of the group's business lies in supplying own brand oils and fats to UK supermarkets; it has about 30 per cent of the market.

Mr Ian Hutcheson, chairman, said earlier this year that the insistence of some customers that prices should be held in the face of unavoidable cost increases had "reached a level of unrealism we have not previously experienced".

At the end of September, the group said it was forming a strategic relationship with Archer Daniels Midland, the US agribusiness group which supplies its biggest refinery in London's Docklands.

It is also forming a 50-50 joint venture with the US group to build and operate an edible oil refinery and bottling and canning plant beside ADM's existing oil seed crushing plant at Erith, Kent.

Mr Hutcheson said yesterday that this, together with other joint ventures and acquisitions, would "further improve our competitiveness and I am increasingly optimistic for the medium to long term once the planned programme of restructuring and capital expenditure is complete".

Earnings per share were up from 20.9p to 30.3p. A final dividend of 5.5p is proposed, taking the total to 9p (8p).

Rejuvenated balance sheet behind recovery at YJ Lovell

By James Whittington

Shares in YJ Lovell (Holdings) gained 7p to 60p yesterday after news that its financial balance sheet had returned the builder and property developer to the black.

The turnround from losses of £59.6m to a pre-tax profit of £4.16m for the year to September was achieved on the back of a rejuvenated balance sheet, which strengthened from a net liability position of £13.3m to show net assets of £62.2m.

The first dividend for three years is declared at 1p, on earnings per share rose of 9.4p (712.3p restated loss).

Growth in all of the core businesses of construction, residential housing and plant hire helped lift sales to £251m (£224m).

The restructuring package, agreed with a syndicate of banks last December, injected £75.5m into the balance sheet through a £45.8m debt-to-equity swap and a £29.7m rights issue.

The money was used in a substantial write-down of property and land in the US and the UK's commercial property divisions and residential housing in Spain. There was also fresh capital investment in the Plant Hire company – which enjoyed windfall profits of £800,000 against a £1.7m loss – and in the residential business in the US and UK.

Group net debt was reduced from £94.2m to £25.5m, resulting in on balance sheet gearing of 41 per cent.

Mr Bob Sellier, chief executive, said: "Our order books are looking healthy and we will continue to consolidate or discontinue our weaker businesses."

The only area where profits fell was the Partnership division, which provides social housing in conjunction with the UK's Housing Association. Pre-tax profits fell 17 per cent to £2.9m, due to reduced sales and government funding for social housing, said Mr Sellier.

Allied Radio cuts deficit to £0.68m

Allied Radio, which operates licences for Radio Mercury and Mercury Extra in the south-east and Fortune in Greater Manchester, reduced pre-tax losses from £1.46m to £678,000 for the year to September 30.

The outcome, which included a £203,000 share of the start-up loss on Mercury, was achieved on turnover down from £3.75m to £2.82m.

Allied underwent a capital restructuring in May, the effect of which was the elimination of interest charges paid on the convertible unsecured loan stock, which have been converted into ordinary shares.

Pro-forma losses per share based on shares in issue after the reconstruction were 0.5p (1.1p).

With some £2m of cash, the board plans to invest in new and existing licences.

LMS gains 30% with aid of property sales

By Simon London, Property Correspondent

London Merchant Securities, the property and investment company, reported a 30 per cent increase in interim pre-tax profits from £10.1m to £13.1m, helped by gains on the disposal of investment properties.

Net rental income improved from £14.8m to £15.7m in the six months to the end of September, partly offset by a 25 per cent rise in administrative costs to £2.6m. The company said these expenses included the cost of its High Court action against shareholders in BSB Holdings, the old British Satellite Broadcasting holding company which owns 14 per cent of BSkyB.

LMS claims the terms under which it was offered shares during BSB's 1991 rights issue were unfair. The case should come to trial in January.

The company's 5 per cent holding in BSB Holdings remains valued at nil in the balance sheet despite the recent flotation of BSkyB.

Dividends received from First Leisure Corporation, the leisure company in which LMS has a 14.6 per cent stake, contributed other income of £632,000 (£596,000).

Profits from the sale of investment properties were £6.5m (£2m) and included proceeds from the disposal of assets held jointly with General Accident, the insurance company. LMS said GA remained a large shareholder and that opportunities for collaboration in new ventures were being explored.

Earnings per share, including capital items, rose from 2.31p to 4.27p, but fell from 1.97p to 1.48p on revenue profit alone. The interim dividend is unchanged at 0.8p.

Apollo back in the black with £291,000

Apollo Metals swung back into profit during its second half to finish the year to September 30 with pre-tax profits of £291,000, against £1.02m last time, writes Paul Cheeseright.

The company incurred a first-half loss of £219,000.

The outcome was slightly higher than the forecast made in October when the aluminium and specialist steel distributor and processor launched a £7.79m rights issue to finance the acquisition of Aviation Metals.

Turnover rose from £28.2m to £33.7m, but after meeting reorganisation costs in Germany, operating profits fell from £1.42m to £564,000.

Although earnings per share were nil, against 5p, the group is confident enough of trading prospects to hold the final dividend at 2.4p, maintaining the total at 3.6p.

Murray Johnstone to launch venture trust

By Bethan Hutton

Murray Johnstone has announced plans to launch one of the new breed of venture capital trusts, details of which were outlined in the last Budget.

Full details will be published in the Finance Bill next month, but the fund management group is confident that it will be able to work with the legislation.

Murray Johnstone plans to launch the trust within the first six months of next year. It will be managed by Mr Iain Tulloch, its Glasgow-based venture capital fund manager.

The group will be looking to raise between £15m and £30m.

Venture capital trusts will be legally restricted to investing mainly in very small companies with assets of less than £10m, which increases management costs.

However, Murray Johnstone aims to mitigate these by co-investing with other venture capitalists.

Private investors are to be offered substantial tax breaks for investing in venture capital trusts at launch. These include 20 per cent up-front income tax relief on investments of up to £100,000 a year, tax-free income and capital gains from the trust if the shares are held for at least five years, and the possibility of deferring capital gains tax liabilities from other investments if the gains are rolled into the trusts.

Mid-States postpones ADS placing

Mid-States, the US motor parts distributor quoted on the USM, is proceeding with its application to be traded on Nasdaq in the form of American Depositary Shares but has deferred its proposed placing.

Mid-States had planned to raise $15m (£9.1m) through a placing of ADSs at between $9 and $11 an ADS (equivalent to between 72p and 80p per ordinary share), but has been advised to postpone it because of adverse market conditions.

The directors are unwilling to complete the issue at a price below 72p because of the dilution this would cause for existing shareholders. However, they may issue a small number of shares at a discount in order to obtain a Nasdaq quote.

NEWS DIGEST

Smiths expands in Europe

Smiths Industries, the aerospace and healthcare company, has expanded its industrial group with two acquisitions in continental Europe.

The acquisitions – Sodiamex of France and Interplas, a Switzerland-based company with operations in Italy, Spain and the UK – will be absorbed into Smith's Flex-Tek ducting and conduit business.

Consideration for the purchases is £13.3m cash, with assumed borrowings of about £5m.

Interplas, which specialises in suction and discharge hose for a range of industrial activities as well as electrical conduit, is being acquired from Walter Meier Holding, a Swiss public company. Sodiamex is a privately-owned company specialising in ventilation ducting.

The total net assets of the two companies at the date of acquisition amount to some £10m and operating profits for 1994 are estimated at £2.3m.

Barcom £5m deficit

The costs of the reorganisation at its Hawkins Plant Services subsidiary and higher interest charges resulted in a pre-tax loss of £5.1m at Barcom in the year to September 30. This compared with profits of £2.08m previously.

The civil engineering and plant hire group reported static sales of £31.4m for the period. There was an operating profit of £217,000 (£3.42m) but exceptional costs of £3.59m represented management changes, depot closures and plant disposals related to Hawkins. In addition interest took £1.78m (£1.5m).

Losses per share of 28.1p this time compared with earnings of 10.9p previously and there is no dividend. Last year 3p was paid, including a final of 1.75p.

Dewhurst ahead

The forecast improvements in efficiency helped Dewhurst, the electrical components and control equipment concern, raise pre-tax profits by 42 per cent from £935,449 to £1.33m for the year to October 2.

Sales were 7 per cent higher at £11.4m (£10.7m), assisted by two months' contribution from the Thames Valley Lift Company.

Earnings per share were 7.82p (5.62p) and a recommended final dividend of 1.6p makes a total of 2.35p (2.08p).

New London Capital

Net asset value per share of New London Capital, the Lloyd's investment trust which came to the market in November 1993, slipped from 91.2p to 88.7p during the six months to September 30.

Net revenue amounted to £780,564 for earnings per share of 1.3p. For the six months from October 8 1993 to March 31 1994 net revenue was £539,592, for earnings of 0.9p per share.

A dividend of 0.5p is declared, making 1p so far. The current accounting period is for the 18 months to end-March 1995.

GM Firth in black

GM Firth (Holdings), the West Yorkshire-based steel manufacturing group, yesterday announced a pre-tax profit of £11,000 for the half year to September 30 – its first positive outcome since 1990.

The result, achieved on turnover from continuing operations of £9.57m (£8.48m), compared with losses last time of £756,000.

Sir Alan Thomas, chairman, said the order book at Spartan Redheugh, the group's main subsidiary, was "very strong . . . further capital investment on the finishing process is being undertaken to reinforce our strategy of moving into the higher quality end of the market."

Earnings per share were 0.2p (losses of 1.54p).

Bradstock rises

Bradstock Group, the insurance broker, reported annual pre-tax profits up from £7.65m to £8.22m, including £1.09m from acquisitions. Continuing businesses showed a 6.7 per cent fall.

Mr Eddie McGrath, chairman, said that a strong showing from the direct insurance businesses more than offset disappointing results from reinsurance.

Turnover for the year to September 30 was £32.7m (£27.1m) with £4.84m from acquisitions. Continuing activities increased by 2.7 per cent.

Earnings per share were unchanged at 8.9p and the board is recommending a final dividend of 4.1p making a total for the year of 5.7p (5.5p).

Reliance Security

Improved market conditions enabled Reliance Security Group to lift interim pre-tax profits by 50 per cent from £991,000 to £1.49m. Turnover was up 14 per cent to £40.2m, against £35.3m.

Mr Brian Kingham, chairman of the security services group, said the significant rise reflected recovery from recession, benefits of economies of scale and lower costs through investment in advanced operating systems.

Earnings per share were 4.4p (3p) and the interim dividend is stepped up from 1.1p to 1.4p.

Feedback in red

Reduced turnover and the cost of a number of "policy initiatives" resulted in a sharp lapse into the red at Feedback, the USM-traded electronic and electrical equipment group.

Turnover for the six months to September 30 amounted to £4.18m, down from £4.47m; losses totalled £374,400 against pre-tax profits last time of £267,900.

Losses per share were 3.87p (earnings of 2.13p) but the interim dividend is maintained at 0.5p.

Moorgate Smaller

Moorgate Smaller Companies Income Trust reported net revenue unchanged at £1.58m for the six months to October 31 giving earnings per share of 2.31p. The interim dividend is unchanged at 1.8p.

Net asset value per share was 127.7p at October 31, down from 143.3p at the April 30 year-end and 132.5p a year earlier.

Equity Consort offer

Equity Consort Investment Trust's proposals to shareholders for capital reorganisation have been withheld following an approach which may lead to an offer.

The trust also announced net asset value per share of 684p at October 31, against a restated 725p a year earlier. Asset value per deferred share fell from £12.50 to £11.67.

Net revenue for the six months to the end of October was £677,333 (£704,130) for earnings per share of 13.63p (14.04p), or 17.66p (18.49p) per deferred share. The interim dividend is unchanged at 11.0625p per share or 13.125p per deferred share.

Total Systems down

Total Systems, the USM-traded computer services group, reported a 39 per cent drop in pre-tax profits for the half-year to September 30.

The outcome of £7,460 (£12,330) was struck on turnover slightly ahead at £1.1m (£1.08m). Mr Terry Bourne, chairman, said the core business had continued to be profitable in a "difficult" market, but investment in package systems had impacted on results.

Earnings per share halved to 0.039p.

Record revenues behind 43% leap at Daily Mail

By Raymond Snoddy

Associated Newspapers, publishers of the Daily Mail and the Evening Standard, produced record revenues and trading profits despite the newspaper price cutting wars.

The performance of its newspapers, with both Daily Mail and Evening Standard classified advertising particularly strong, helped the Daily Mail and General Trust to a pre-tax profit of £92.1m in the year to October 2 – a 43 per cent rise on the previous £64.4m.

Trading profit increased 18 per cent to £97.6m. The pre-tax result was after exceptional losses of £16.1m for provisions set against investments in the Whittle partnerships in the US, but included a £15.9m surplus from Euromoney's £23.1m placing of shares to institutions in May. Although DMGT sold no shares, its Euromoney stake fell from 74.7 per cent to 70.3 per cent.

Earnings per share were 58.9p (46.8p). The company recommended a final dividend of 12.5p (adjusted 11.2p) making a total of 16.5p (adjusted 14.8p).

Mr Peter Williams, finance director, said yesterday that DMGT was delighted by the performance of the main group newspapers. "It's almost a surprise to ourselves."

Advertising revenue rose by 14 per cent and there was also a "sharp increase in profit" at Northcliffe Newspapers, the regional group.

The board, led by Lord Rothermere, did, however, warn that while the group's UK businesses continued to experience improving advertising markets, the national newspaper sales market continued to be very competitive and a sharp increase in newsprint prices was expected.

Mr David Forster, media analyst at Smith New Court, the stockbrokers, said DMGT had produced "a really rather good set of results". Smith New Court was now looking for profits of £103m and 62.3p earnings in the current year and £124m profits and 75.8p earnings in 1995-96.

Other ventures such as Channel One, the London News Channel and Collegeview, a US-based information service for college leavers, remained in loss because of start-up costs.

Associates such as Teletext, Westcountry, the ITV company, the GWR commercial radio group and the Bristol Evening Post all had improved results.

The purchase of the Nottingham Evening Post is due to be completed in January.

DMGT A shares slipped 2p to 978p.

M&G rises 20% despite difficult markets

By David Blackwell

M&G Group, the independent unit trust company that stresses the importance of high dividends, yesterday lifted its total pay-out for the year by 20 per cent to 30p, matching the rise in earnings.

The board is recommending a final dividend of 17p (15p), to be paid from earnings of 57.5p (47.8p) per share.

Pre-tax profits for the year ended September rose by 20 per cent from £50.9m to £61m. Funds under management grew by nearly 12 per cent to £11.8bn (£10.6bn) – a record net inflow.

"We are extremely pleased with 20 per cent growth," said Mr David Watson, finance director, given that the markets had been difficult. The FT-SE-A All-Share Index at the end of September was at an almost identical level to the previous year.

Over five to 10 years 94 per cent of the group's unit trusts were in the first and second quartile. "We continue to offer above average investment performance," said Mr Watson. "We treasure this highly."

Unit trust sales more than doubled to £899m (£414m) and net of redemptions jumped from £27m to £527m. The group's share of the market for unit trust Pep sales grew from 9.1 per cent to 10.2 per cent, helped by the removal of the initial charge on the Managed Income Fund Pep in January.

Single premium life sales were 81 per cent higher at £237m (£131m). From January sellers of life insurance will have to disclose the cost of management fees, and overall sales are expected to dip. But Mr Watson said M&G was well placed to win extra business as it was among the lowest charging companies.

Net asset value per share rose from 196.5p to 216.3p. The shares rose by 3p yesterday, closing at 940p.

Lower provision of £24m for further rationalisation

Trafalgar House cuts charges

By David Wighton

Trafalgar House, the engineering and property conglomerate, has returned to profit after three years of losses, helped by a sharp fall in provisions and the cost cutting carried out since Hongkong Land took effective control last year.

About 2,000 jobs have been cut from the engineering division in the past year, reducing costs by about £30m.

Yesterday the group announced a further £24m of provisions for additional rationalisation and redundancies. These will fall mainly in the engineering division in the UK and Europe.

Engineering profits fell to £43.7m (£77.2m) on turnover of £2.23bn (£2.25bn) in the year to September 30. Group operating profits before exceptionals rose to £93.6m (£91.1m).

Mr Nigel Rich, chief executive, said engineering margins had continued to fall as the division worked through contracts won during the recession. He warned engineering profits could fall further this year before margins recovered. The order book had remained fairly constant at about £2bn.

"There has been a pick up in the steel industry and petrochemicals and we are getting a lot more work coming out of Asia."

After total exceptional debits of £24.1m, Trafalgar recorded a pre-tax profit of £45.6m. A debit of £396.7m in the previous year resulted in a loss of £347m.

Mr Gavin Launder, conglomerates analyst at Goldman Sachs, described the results as "quite encouraging" but left his current year forecast unchanged at £99m. He reduced his earnings per share forecast from 4.5p to 4p.

A sharply reduced interest bill of £23.9m (£41.4m) followed the £400m convertible share issue a year ago, which left Trafalgar with gearing of just 3 per cent at its year end on shareholders' funds of £708.6m.

Operating profits from construction were little changed at £13.1m (£12.5m) and there was a strong recovery in housebuilding, where profits jumped to £19m (£6.1m).

Analysts were encouraged by the £500,000 underlying profit from commercial property – compared with a £15.4m loss – but the company said the flat contribution of £7.8m from shipping was disappointing.

The mass of exceptional items included property write-backs of £5.8m – after write-downs of £178m the previous year – and a £15m provision for environmental risks related to a site in the US.

Earnings per share were 1.1p (47.6p loss) and Trafalgar is paying a final dividend of 1p, after passing the interim, as predicted a year ago.

Sweb dismisses merger speculation

By Michael Smith

South Western Electricity dismissed speculation that it could become involved in a merger or takeover as it reported a 35 per cent increase in interim pre-tax profits and a 24 per cent dividend rise.

Mr John Seed, chief executive, said there had been no noticeable changes in its shareholders' register. "We are not in discussions with anyone and it is our intention to remain independent," he said.

As one of the smaller regional electricity companies, Sweb has been identified by investors as one of the most likely bid targets after Northern Electric. Trafalgar House announced this week that it was considering a bid for Northern.

In the six months to September 30, Sweb made pre-tax profits of £41.4m (£30.6m) on turnover of £374.1m (£385.8m). The interim dividend of 8.7p (7p) is being paid from earnings of 25.6p (19.9p).

Sweb said the underlying increase in the dividend was 18.6 per cent but the amount per share had increased further by the buy-back of 5.1 per cent of its shares.

Sweb has authority to buy back up to 10 per cent and Mr Seed said the company would choose an appropriate moment to complete the programme.

If it did so, gearing by the year-end would be about 20 per cent, assuming no other significant changes.

Distribution unit sales increased by 2.6 per cent on a weather-adjusted basis, helping to increase profits from £26.6m to £36.7m. The supply business incurred a loss of £2.5m against a profit of £3.2m in the comparable period.

Mr Seed said Sweb aimed to cut £27m from the cost basis over the next five years, with most of the reductions in the first two. About £18m of this would come from improving operation efficiency. Electricity business staff is scheduled to fall from 2,900 to 2,400 by the end of the century.

Retailing halved its loss to £500,000. Mr Seed said that if the company could "find an opportunity to make an elegant exit from retailing we would take it".

Sweb intends to demerge its full holding in the National Grid if flotation goes ahead.

● COMMENT

There were two schools of thought on Sweb in the City yesterday. Some analysts argue that it is a good bet because it enjoyed a favourable regulatory review; others see it as being in danger of being penalised by investors for moving too slowly on cost-cutting, particularly jobs. But in these heady days evaluation of electricity companies has as much to do with the likelihood of them becoming bid targets as with their underlying performance. That is why Sweb's rating is higher than most. Its shares are trading on a yield of 4.2 per cent, assuming a 29p full-year dividend.

Southwest News

John Seed: aiming to cut £27m from cost base in next five years

Dobson Park raises £18m and buys rest of Longwall

By Peter Pearse

Dobson Park Industries is making a recommended offer for the outstanding 41.1 per cent holding in Longwall International, it mining equipment associate. It proposes to part fund the deal with a 1-for-4 rights issue at 62p to raise £17.7m net.

The shares eased 3p to 75p.

At the same time, the mining equipment, industrial electronics and toys group revealed pre-tax profits more than doubled for the year to October 1.

Profits leapt to £10.5m pre-tax, at the top end of expectations. The comparable £4.16m was struck after a £4.59m loss from the disposal of the Power Tools and Revere Aerospace. Adjusted for the effect of the disposals profits rose 20 per cent.

Turnover fell to £100m, including £4.47m from acquisitions, against £123.4m, including £28.9m from discontinued activities. Underlying turnover showed an increase of 6 per cent.

Earnings rose from 1.42p, or 4.65p adjusted, to 5.45p and the final dividend is held at 2.55p for an unchanged total 3.75p.

Mr Alan Kaye, chairman, said the dividend could not be raised because of bank covenants connected with the Longwall joint venture.

In January 1993 Dobson merged its mining equipment interests with Meco International, a 1989 buy-out from Dowty, into Longwall. Dobson held 50 per cent of the shares and 35 per cent of the votes. In September 1993, it bought Westpac's 8.9 per cent stake for £2m, though the 12 per cent of the votes could not be utilised until either Dobson made a general offer or Longwall was floated.

Dobson reduced its dividend payments when Longwall was set up as the joint venture had no cash flow, being laden with borrowings dating from the mbo. Dobson is assuming the borrowings, which, at November 18, stood at £23.5m. Indeed Mr Kaye said Dobson wanted Longwall "to score" by refinancing it "in a plc-type way".

Dobson is offering £18.4m in cash with an alternative comprising an initial cash payment of £16.4m and a performance-related payment of up to £11.6m, linked to profit and cash generated over three years.

Mr Kaye said that Longwall's management, holding 25.8 per cent of the shares and 41.6 per cent of the voting rights had accepted and opted for the performance related alternative. That enables Dobson to speak for 84.7 per cent of the shares and 88.5 per cent of the voting rights.

Group operating profits fell to £5.78m (£6.58m), though the associates – Longwall and Instem – contributed a further £4.79m (£2.95m).

The industrial electronics side lifted pre-interest profits to £4.72m (£3.95m); mining equipment rose to £5.01m (£4.48m); toys and plastics advanced to £1.63m (£1.38m); and a property sale brought in £448,000 (£39,000).

Improved beer sales volumes help Greene King to £10.7m

By Roderick Oram, Consumer Industries Editor

Greene King yesterday announced its first improvement in beer sales volume in three years as it reported a 12 per cent rise in interim pre-tax profits from £9.49m to £10.7m. Turnover rose from a restated £72.8m to £77.5m.

Most of the growth came from managed pubs, which sold 16 per cent more beer, partly reflecting additional houses purchased from Bass. Their sales and operating profits rose by 19 per cent. Volumes sold to the free trade and national accounts dipped slightly, leaving overall volume up 0.2 per cent at 410,000 barrels.

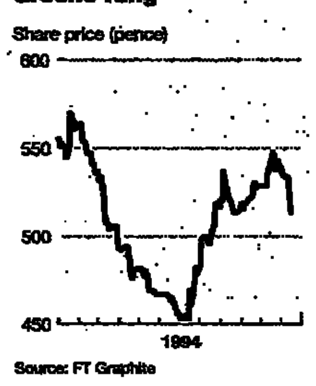
The second half had started well with beer volumes and food and drink from managed pubs showing further growth, said Mr Timothy Bridge, chief executive. Consumer confidence remained fragile, however, particularly in East Anglia, the group's home market.

Underlying profits growth was 8 per cent, excluding reorganisation costs of £1.02m (£336,000) and a £763,000 gain on disposal of investments, mostly the profit on the sale of its 29 per cent stake in Morland, the Thames Valley brewer.

The £29m proceeds helped cut net debt from £100.6m to £69.2m and gearing from 43 per cent to 28 per cent.

Greene King continues to look for new pub sites in densely populated areas, typically to the south and south-east of its home base. It hopes to open about seven new pubs this year; so far it has opened one in Crawley and one in Oxford.

The interim dividend is 4.1p, up 6.5 per cent. Earnings per share were 19p (16.1p) before exceptionals and 17.2p (16.4p) after.



Source: FT Graphite

Chrysalis considers options on distribution

By Raymond Snoddy

Chrysalis, the music and media group, is considering the possibility of joining a consortium bidding for the Channel 5 franchise or launching a channel for cable or satellite television.

"Channel 5 is not the only method of distribution," said Mr Chris Wright, chairman of Chrysalis, which will make 3,000 hours of television this year.

The company, which yesterday announced a pre-tax loss of £3.39m for the year to August 31 on turnover from continuing operations up from £59m to £68.9m, has not yet decided which option to choose. However, it is keen to keep its status as an independent producer.

The pre-tax loss of £14.6m the previous year included a provision of £11.1m against losses on the closure of discontinued businesses such as the MAM Leisure amusement machine operation. The 1994 results reflect a credit of £1.5m released from the provision.

Losses per share were 11.06p (34.44p).

Mr Wright, a significant shareholder in Chrysalis, said that "excellent progress" had been made in refocusing the company on the multi-media entertainment industry.

"As anticipated, the extensive investment that this has necessitated has impacted on short-term profitability but I am confident that our long-term goal of a substantial enhancement of shareholder value will be achieved."

Chrysalis has decided not to pay a dividend for the year and it is clear that the start-up costs of Crystal FM, the new commercial radio licence for London won against intense competition, is likely to be enough to keep the company in loss in the current financial year.

Chrysalis, and probably its shareholders, will expect the company to move into profit in 1995-96. At present shareholders' funds stand at £45m.

The shares closed unchanged at 245p.

Turnround takes ERF to £0.8m

By John Griffiths

Recovery in the UK truck market and some non-European export markets helped produce a pre-tax profit of £801,000 at ERF (Holdings) in the six months to October 1, against a £613,000 loss in the comparable period.

The turnround follows accumulated losses of more than £9m in the previous four years, when ERF and all other truck makers suffered from the most severe European market slump on record.

In the second half of last year ERF made £453,000 - not enough to prevent a loss of £26,000 for the year as a whole.

In the current half-year gearing fell to 41.9 per cent, against 63.5 per cent at the end of the previous year.

Turnover rose 37 per cent to £91.8m (£66.9m).

An interim dividend of 2p (nil) is payable from earnings per share of 4.6p (7.53p loss).

UK sales were 25 per cent higher, but those to export markets, particularly South Africa, jumped by 95 per cent. ERF's 43.9 per cent stake in ERF South Africa earned it £109,000 (£78,000).

Mr Peter Foden, chairman, said he regarded South Africa as a major potential growth area.

Exceptionals propel Alvis ahead to £5.83m

By Geoff Dyer

Exceptional profits of £2.52m helped Alvis, the defence contractor, lift pre-tax profits by 15 per cent in the year to September 30.

The upturn from £5.07m to £5.83m was achieved despite an 18 per cent fall in turnover to £80m (£97.3m), resulting from weak order books in several subsidiaries.

The sale of Alvis's 11.2 per cent stake in Avimo Singapore, coupled with the disposal of Alvis UAV Engines, resulted in exceptional gains of £4.23m. However, the group also took a charge of £1.7m for redundancy and restructuring costs.

Operating profit from continuing operations dropped from £5m to £43,000 on sales 31 per cent lower at £57.1m.

Profits at Alvis Industries fell from £1.89m to £1.28m, after losses at Alvis Vehicles and Alvis Aerospace and Transmissions.

Mr Nick Prest, chief executive, said: "We are reasonably confident that Alvis Vehicles will get some substantial orders this year, which is very important for the profitability of the group."

Unipower, the manufacturer of specialist military vehicles acquired in February, did not make a substantial contribution to profitability, but is expected to next year. The goodwill write-off from the acquisition is £3m higher than was then expected at £9.42m.

Avimo Singapore's contribution to profits fell from £8.57m to £3.26m because of poor results at its Asian operations. Avimo Alvis Aerospace, which makes castings and mechanical components, incurred a substantial loss.

Helio, the maker of periscopes and equipment for fighting vehicles, and Arab International Optronics both performed well.

Earnings per share emerged at 2.5p (2.4p) and an unchanged final dividend of 0.5p is proposed maintaining the total for the year at 1p.

The shares closed down 1p at 41p.

Gold Greenlees shows 19% advance to £2.66m

By Diane Summers, Marketing Correspondent

Gold Greenlees Trott, the advertising and marketing services group, reported pre-tax profits up 19 per cent from £2.24m to £2.66m in the six months to October 31.

Turnover increased 13 per cent from £127.8m to £143.8m and group revenue grew 9 per cent from £25.8m to £28m. Operating profits rose by 11 per cent to £3.16m.

Earnings per share were up from 6.2p to 7.18p. The interim dividend is 2p (3.3p) with the balance of interim and final adjusted to reflect the group's previous practice.

Net interest costs fell by 18 per cent to £507,000, reflecting reduced long-term borrowings.

The results represented the best overall performance for some time, said Mr Michael Greenlees, chairman. This was largely achieved as a result of improvements in UK operations, in particular of GGT Direct and GGT Advertising.

Plysu declines to £2.85m

By Peggy Hollinger

Plysu, the plastic container manufacturer, expects to pay at least an unchanged dividend this year, despite the adverse effect which sharply higher raw material prices will have on profits.

Mr David O'Shaughnessy, chairman, who was announcing a 16 per cent fall in interim profits, said progress in cutting costs and increasing volumes had been overshadowed by rises in polymer prices of more than 75 per cent. This represented cost increases of £1.5m a month across all of Plysu's businesses.

The full effect of the increases would be felt in the second half. However, Mr O'Shaughnessy said Plysu would be able to pass through all the price increases, although that would take time.

The drop in pre-tax profits, from £3.41m to £2.85m, for the six months to September 30 was on sales 2 per cent higher at £44.7m.

Mr O'Shaughnessy said profits were lower because of both the impact of higher raw material prices and the negotiation of longer-term contracts with the dairy companies.

However, with the restructuring announced last year about £1m in annualised costs had been cut out of the UK containers business, and £750,000 from the continental European operation. The underlying trading position was also improving, he said, with volumes in the juice and dairy containers business at record levels.

Plysu maintained the interim dividend at 2p. Earnings per share fell from 4.8p to 4p.

Innovative Technologies shares trade at 3p premium

Shares in Innovative Technologies Group, a maker of polymers and seaweed-based products for the healthcare industry, traded at a 3p premium to their 120p placing price yesterday.

The issue of 4.45m ordinary 10p shares was fully placed. The company is believed to be the last to be admitted to the USM. Funds raised will be used to repay borrowings and expand manufacturing facilities.

Kunick back on dividend list with 0.5p

By Geoff Dyer

Kunick, the leisure group which floated its UK nursing homes business earlier this year, is to pay its first dividend for three years after announcing an 86 per cent increase in annual profits.

The proposed dividend is 0.5p. Turnover for the 53 weeks to September 30 was flat at £95.2m (£94.1m) but pre-tax profits jumped to £5.98m (£4.84m). Earnings per share, after exceptional items, were 0.82p (0.13p).

Operating profit on continuing operations was up 28 per cent at £7.66m (£6m).

The leisure division increased operating profit by 27 per cent to £5.65m (£4.43m) after an efficiency programme at Bell Fruit Services and the successful introduction of AWP machines, which issue prizes such as watches. Four new entertainment centres for the 18-30 age group will be opened in 1995.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Acatos & Hutch	fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Albion	fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Alvis	fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apollo Metals	fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asda	int	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Barcom	fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bradstock	fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bristol Water	int	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Chrysalis	fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Daily Mail	fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dewhurst	fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dobson Park	fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Eq Cons IT ord	int	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Eq Cons IT def	int	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Esco	int	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gold Greenlees	int	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Greencore	fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Greene King	int	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GWR §	fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Kunick	fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
London Merchant	int	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Lowell (YJ)	fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
M&G	fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Moorgate Smaller	int	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New London Cap	int	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Plysu	int	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Polar §	int	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Reliance Sec	int	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweb	int	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Trafalgar House	fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. *Equivalent after allowing for scrip issue. ‡Irish pence. ‡Making 1p to date.

ICI sells Teesside plant

By Chris Tighe

Imperial Chemical Industries confirmed yesterday that it is to sell its ethylene oxide derivatives businesses to Union Carbide, the US chemicals group.

Under the £40m deal, Union Carbide will acquire and operate ICI's ethylene oxide and ethylene glycol production plant at Wilton, on Teesside. The 90 employees will transfer to Union Carbide.

The deal, signed early yesterday, is subject to review by the Office of Fair Trading, but is expected to be completed within three months.

ICI was keen to stress the differences between this latest divestment and its 1993 swap deal with Du Pont. Du Pont has since angered the Teesside community, and embarrassed ICI, by announcing heavy job losses at the nylon plants which it acquired there.

Mr Arthur Dicken, ICI's Teesside operations manager, said: "There are two big differences, the mutual dependence to supply each other and the very firm plans to invest."

Under the agreement ICI will supply Union Carbide with ethylene for the Wilton site, and buy 45 per cent of its output of ethylene oxide, a key raw material for a number of its businesses.

The two companies have agreed to fund jointly the expansion of the ethylene oxide unit at Wilton from 240,000 tonnes a year capacity to 300,000 tonnes. Union Carbide also intends to increase Wilton's ethylene glycol capacity from 85,000 to 200,000 tonnes a year and may expand other facilities.

Mr Mike Brider, Teesside district secretary of the Transport and General Workers' Union, said the unions would seek assurances that Union Carbide would maintain union recognition and ICI employment terms and conditions.

Devanha for market via reverse takeover

By Bethan Hutton

Devanha, the cable television company, is coming to market by reversing into Worth Investment Trust, which has made a £24m recommended bid for the company.

The offer takes the form of 24,628465 new shares in Worth, with one warrant for every five shares, for each Devanha ordinary share. The £24m valuation is based on the 20.5p asset value of existing Worth shares, with a 2p premium. Worth shares were suspended yesterday at 24p.

The new shares will represent 78 per cent of the share capital of the enlarged company, to be named Caledonian Media Communications.

Marshall Securities is to place 20.5m of the new shares, 17.5 per cent of the total. Directors and shareholders in Devanha have given irrevocable undertakings to accept the offer in respect of 90.8 per cent of the shares.

The proposals will be put to an extraordinary meeting on January 9. Dealings in the new shares and warrants are due to start on January 10.

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JOBS: Assumptions that lifetime employment is a thing of the past are being challenged

Don't throw away those gold watches

The debate about whether we have a job for life has reached an interesting stage in the life-cycle of a trend.

First we have the observations of the trend spotters, in this case and perhaps most prominently management writer Charles Handy, whose observations and anecdotes are striking chords of recognition among many employees and managers.

Second we have the academics who test the theory. What often happens with such trend observations is that they attract disciples who accept them as gospel truth. This stimulates the academics, who then take great delight in demolishing or blowing holes in the theory. There follows a period of calm in which the trend is found to be not a trend at all, or where its real strength emerges.

In the "end of jobs for life" debate, we have reached the second stage. Last week Simon Burgess and Hedley Rees at Bristol University published findings which suggested that many more people than might have been expected are spending their working lifetimes with the same employer.

Peter Robinson, a researcher at the Centre for Economic Performance, London School of Economics, welcomed the findings, which, he said, was "nailing another myth" about the labour market. He pointed out that in the US, where many similar trend observations have been made, the proportion of employees reporting they had been in their existing jobs for more than eight years had hardly changed in the 21 years from 1979 to 1991.

So what are we to conclude? Have the seers got it wrong, or are their often anecdotal observations alerting us to the beginnings of a large-scale change? Should we, in fact, ignore the evidence of our own eyes and experiences?

Robinson says we should at least be guarded about what we might believe from our observations. Take short-term contract working, for example. Surely this is becoming far more widespread? Not so, he says. "The tendency is to look around you and see what's happening in your own area. I and my colleagues are all on temporary contracts now, but when you look at the proportion of employees on temporary contracts you see it hasn't changed between 1984 and 1994."

Part of the problem with such academic observations is that they are far less fun for consultants and writers – including journalists – who make their livings from trend spotting. They may also have their flaws in that their findings are historical. Robinson does not deny that there may be a trend. What he is saying is that the evidence suggests the changes may be far more gradual than we have assumed.

When change does happen, however, it sometimes takes time to gain momentum. Many of the changes in work patterns emanating from the industrial revolution mainly took place in about 30 or 40 years around the turn of the 17th century. Some people are asking whether the information technology revolution will prove a similar watershed in the way we work.

The tension between popular observation and hard statistical analysis does nothing to clear the confusion among employees and job applicants who would really like to know what to do for the best.

University graduates could be forgiven for becoming particularly cynical They are courted by the large companies on the university milkround, yet they are becoming increasingly sceptical about the prospects on offer.

The careers department that serves both Manchester University and Umist (University of Manchester Institute of Science and Technology) has started a scheme which is trying to encourage more small and medium-sized businesses to take an interest in graduates.

Chris Phillips, the department's deputy director, said: "We need to do this because the large companies will continue to recruit graduates but nothing near enough to keep up with the increase in the numbers of graduates leaving universities."

Such careers-orientated schemes are particularly appealing for Umist, which likes its students to take part in company-based research projects, utilising disciplines learned in their first year.

Dale Littler, Umist professor of marketing said the university's approach, which avoids set texts, tries to encourage students to think strategically about their work and to obtain first-hand knowledge of company expectations in project work. Abilities to do the work, complete reports, carry out presentations and meet deadlines are all tested in the workplace. The benefit to companies is that findings can be used to their advantage. In one project, a team of Umist students suggested improvements to a new banking kiosk developed by the Co-operative Bank.

"Some of the solutions to the things they are working on are not found in text books," said Littler.

The separate careers scheme, in turn, gives companies which might usually consider taking on graduates the opportunity to put them through their paces without any obligation or commitment.

Some interesting findings on student expectations and approaches to their jobs have been discovered by John Arnold, lecturer in organisational psychology at Umist, in research he carried out with Kate Mackenzie Davey at Birkbeck College, London. They found that absence or provision of clear career paths had a strong influence on whether graduates stayed with an organisation or left. It also found that they had a preference for being developed through the work they did rather than through theory in training programmes.

This again seems to point to quite conservative tendencies among graduates. In other words, if companies are offering well defined career paths, they should maintain their promise. They might also devise projects or programmes that enable them to use their graduate recruits as performing assets from the start of their employment.

● Returning to the theme that things may not be always as they seem. No sooner had I reported on a trend among recruiters to seek out competencies from job applicants that was questioning the need for such things as curriculum vitae and paper qualifications, than I came across a system for sifting CVs that is being widely used in the US and which promises to streamline recruitment and sifting procedures for recruiters.

The more thoroughly composed the CV, the greater advantage there is for the system.

The system, called Resumix – there are other CV database systems on the market but Resumix, based in Santa Clara, California, has patents for its information sifting method – was devised about six years ago and has been on the US market for about two years.

Whereas part of the recruiter's art is to sift and funnel applicants into a digestible interviewable group, Resumix acts like a bucket, scanning as many CVs as you want to put in it. The information on them is stored and when you have a job which has a particular skill or qualification requirement, all you need do is punch in the particular skills you are looking for and it spouts out a list of names.

Mercury Communications, which is using the system to select from the 8,000 graduate applications it will have received by the end of March, says it has made the selection process much speedier.

By retaining names on a database, employers can sift through for any number of jobs they please and applicants' CVs which would otherwise be filed away and forgotten if they were unsuccessful in their specific job application can be instantly reappraised for other job openings.

It is proving particularly popular among the big mass recruiters in the US such as IBM and Disney.

So the CV is dead, long live the CV. The potential of such systems seems enormous. It may be worth questioning at some stage whether there is any potential for abuse. The day when all our CVs are on such systems may not be far away. If we have a job for life, however, we should only need to use them once.

Richard Donkin

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ACCOUNTANCY

'Cookbook' may be put on the back burner

Jim Kelly reports on the debate about the future role of auditors in the wake of the 'expectation gap'

It looks like 1995 is going to be the year of the auditor – and about time too. The role of auditors, the scope of their duties and responsibilities, are issues too long left to the almost glacial pace of change in the accountancy profession.

Auditors and audits captured the headlines during the corporate scandals of the late 1980s and early 1990s. The public expected them to spot fraud and were disappointed when they failed. The so-called "expectation gap" began to widen.

The auditors were slow to take up a public defence of their part in these cases. By default they let the public think that they were the only culprits. They failed to educate society about the constraints they faced in unearthing fraud and fraudsters.

In recent days, several developments in the field of auditing point to a new vitality in the debate. A common thread appears to run through all of them: the auditor is being encouraged to move away from the "cookbook" approach, based on extensive rules and programmed procedures, towards a reliance on individual judgment.

Last week the Institute of Chartered Accountants in England and Wales announced the foundation of a new Auditing Faculty – to be run alongside its existing faculties in tax, information technology, and finance and management. Its first chairman will be Gerry Acher, head of audit at KPMG Peat Marwick.

Mr Acher marked his arrival on the scene by announcing a conference in the new year on The Future of Accounting: Principles or Rules? Mr Acher made it clear that while the conference might debate the matter, as far as he was concerned the profession was over-burdened with rules and regulations and this was its "last chance" to avoid being swamped by the "cookbook" approach.

He accepted that the profession had retreated behind the rules, using them as a defence, following the bruising failures of the past. Litigation, and the threat of it, had made auditors wary of using their judgment. Reliance on the rules had led to further failure as dishonest directors used loopholes in them to defraud shareholders.

Mr Acher acknowledges that one of the reasons the regulations are so long and appear so tortuous is that auditors often pester the Accounting Standards Board to make them specific. Many auditors feel safer with detailed rules rather than vague principles.

There is little doubt that many auditors find the weight of accounting standards oppressive. A senior partner in one of the Big Six firms has a pile of current publications on the corner of his desk merely as a visual reminder of the body of work involved.

There were distinct echoes of Mr Acher's argument in the publication of draft proposals by the Auditing Practices Board on the audit of related party transactions. The Accounting Standards Board is preparing to toughen up on the requirements on directors to disclose links between various related parties – for example between the immediate family of directors and a related pension fund.

David Lindsell, the chairman of the working group which produced the draft proposal, thinks that if auditors had to trail through all the possible related party transactions in a large company, the resulting audit fee increase would be huge. He saw no point in a "make work" system based on ticking boxes.

The result was a recommendation that audit procedures in this area should be based on risk assessment. "The APB is proposing a risk based audit approach in preference to a procedural one." No cookbook here, and no rules to hide behind. The statement from the APB continued: "This requires auditors to use their judgment to determine the nature and extent of procedures rather than prescribing a list of mandatory procedures."

The movement towards judgment found a further echo in the publication last week of The Audit Agenda, the APB's comprehensive proposals for the future of the auditing. Prof Ian Percy, the chairman of the working party which produced it, talks enthusiastically about the "psychology of auditing" and the need to train auditors in the behavioural sciences.

While the report rejects extending the responsibilities of auditors in detecting fraud, it calls for "greater realism both within and outside the profession about the possibilities of finding fraud, whether material or not".

The report called for regular seminars on fraud and for training for auditors in detection and the "behavioural aspects of individuals under pressure".

Beyond the annual audit, the report also called on boards to consider periodic "forensic audits". These would be undertaken by special teams trained to find fraud and complimented in some cases by ex-police officers. The forensic audit would be to the annual audit what de-bugging the boardroom is to corporate security.

Prof Percy wants a more open debate on fraud in the profession. He is tired of the argument that talking about fraud only gives fraudsters fresh impetus to offend. He wants an auditing profession alive to developments in fraud and willing to use this skill and judgment in spotting fraud and – more often – spotting areas of potential fraud.

The publication this week of Fraud Watch, by Ian Huntington and David Davies at KPMG Peat Marwick, is therefore a happy coincidence. The authors start their work with a quote: "Fraud and deceit abound in these days more than in former times." That was the view of Sir Edward Coke, lawyer and politician, writing in 1602.

Luckily the rest of the book is much more up to date. It records scores of detailed examples of real frauds and then lists the warning signs which go with each one. As an aid to Prof Percy's enquiring auditor it would be difficult to think of a better text book.

On example should suffice. A chief executive of a bank approved a loan to a company for the development of a golf course and country club. He entered into a secret joint venture agreement to be paid 30 per cent of the profit from this project. The profit was paid into a private company in which he was a shareholder. All the files on the joint venture were kept in the chief executive's office.

Warning signs in this case could have included:

- "Thin" loan files.
- Sketchy information, but management claim "creditworthiness of the borrower is undoubted".
- Borrowers with common or like-sounding names.
- Photocopied documentation and missing detail.
- Funds paid before necessary formalities completed.
- Significant numbers of borrowers introduced by the same source.
- File handled exclusively by senior official.
- Inconsistent jottings on file.
- Repayments made by persons other than the borrower.

Of course, there is one big drawback to the auditing profession talking so much about fraud. The "expectation gap" which has spurred it into action may well widen if auditors continue to "fail" to catch fraudsters. Many auditors are sceptical about ever seriously restricting fraud.

Not so Ian Huntington, one of the authors of Fraud Watch. He once uncovered a fraud by noticing that a series of depositors at a bank all used the same coloured masthead on their stationery. In fact the bank was laundering its own money and the depositors were fictitious.

Fraud Watch, by Ian Huntington and David Davies, £45, published by Accountancy Books.

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THE REQUIREMENT

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SEARCH & SELECTION

COMMODITIES AND AGRICULTURE

LME copper market touches 5¼-year high

By Kenneth Gooding, Mining Correspondent

Copper prices on the London Metal Exchange yesterday surged to their highest levels for five and a quarter years. Aggressive buying by traders, producers and consumers helped the market move upwards, analysts said. That attracted new money from investment funds, which swamped some profit-taking by other funds.

Prices suggested that supplies of copper for immediate delivery were tight. At the close last night the backwardation, or premium for immediate delivery compared with delivery in three months, widened from $52.50 a tonne on Wednesday to $59.50.

Traders reported there was nervousness in the market about the approaching "third Wednesday" options activity next week which also focused attention on copper's supply tightness.

"Copper will remain tight until significant new supply hits the market – and that's six months away," said Mr Wiktor Bielski, analyst at Bain & Co, a Deutsche Bank subsidiary. He suggested the three-month copper price, which closed last night at $2,979.50 a tonne after reaching $2,990 at one point, was on target for $1.40 a pound ($3,085.60 a tonne). "I would not be surprised to see copper at $1.50 to $1.60 a pound in the first quarter [of 1995]," Mr Bielski added.

Mr Ted Arnold, analyst at the Merrill Lynch financial services group, said copper had "the best fundamentals" of any of the LME-traded metals. In his monthly metals report he suggested copper could reach $1.40 to $1.50 a pound and that "the high will probably come during the second quarter, which traditionally is the strongest quarter for [metals] consumption".

He recalled that the highest price paid for LME copper was $3,707 a tonne or $1.68 a pound on December 8, 1988, at which time the cash-to-three month premium was $546 a tonne.

Miners find grounds for optimism in PNG

Nikki Tait reports on the resource-rich but notoriously unpredictable Pacific nation

Three months ago, mining companies held their breath as the government changed in Papua New Guinea, the resource-rich but notoriously unpredictable Pacific nation.

Out went Mr Paias Wingti, the former prime minister, whose administration was regarded as maverick and internally divided. In came Sir Julius Chan, PNG's first finance minister after independence in 1975, who previously held the prime minister's job between 1980 and 1982.

In its first 100 days, the new Chan government has given the resources community some grounds for optimism. Negotiations over the potential structure of the large A$1bn-plus Lihir gold mine project, a joint venture between Britain's RTZ and Niugini Mining, have resumed. Last week, in Sydney, Sir Julius said he viewed "fast-tracking" this development as second in importance only to resolving the secessionist dispute which has been raging on the PNG-controlled island of Bougainville.

Even more recently, Mr John Giheno, PNG's mining minister, returned from a meeting with landowners in Lihir, saying that all parties had agreed to work towards a February 28 date for the issue of the "special mining lease", which would allow the project to proceed. The SML was originally due a year ago, but differences within the Wingti government ground the approval process to a halt.

In the course of his Australian visit, Sir Julius also noted that Lihir was not the only project to be progressing. He pointed to the recent final go-ahead for an oil refinery to be built at Motukea Island, close to Port Moresby, the capital. This would be the country's first major refinery and, assuming finance is organised, could get under way by the middle of next year. The international consortium behind the project has retained Prudential-Bache's Australian office to look at local listing possibilities.

The PNG prime minister said that there had been a 16 per cent increase in "grassroots" exploration expenditure in PNG in 1994 and held out the prospect of a further rise in 1995. The number of new licences granted in 1994 was twice the 1993 level, he said.

But resources policy and economic development have always been closely bound together in Papua New Guinea, and while some clouds have been lifting on the former score, the latter has become increasingly obscured.

By its own admission, the PNG government is facing a serious cash crunch. Stories have circulated of unpaid bills, including some owed to Australian exporters. Mr Chris Haiveta, PNG's finance minister, has denied that there will be any reneging on obligations, but conceded that people will "have to wait in line".

Senator Gareth Evans, Australia's foreign minister, has said that his country has brought forward remaining 1994 aid payments to PNG – which total around A$300m – to help alleviate the short-term situation while the country goes about negotiating longer-term facilities with the International Monetary Fund and World Bank. Mr Peter Sullivan, vice-president of the Manila-based Asian Development Bank, recently described PNG's macroeconomic problems, which are largely blamed on runaway public expenditure, as an "emergency".

But aside from promoting PNG's desire to fast-track developments to provide future income and growth, this economic plight could have direct repercussions for a number of existing resource projects.

First, there are suggestions that the PNG government may not now complete the vexed deal that was designed to see it lift its stake in the large Porgera gold mine from 10 per cent 25 per cent. This was to be achieved by the purchase of additional 5 per cent interests from the three commercial partners – Placer, Renison Gold Fields and Highlands Gold.

The companies involved say there has been no formal reopening of negotiations over Porgera, although the rearrangement of equity stakes should have been completed many months ago. However, the notion has been sounded informally in Port Moresby. The additional shares were to be bought for around K140m (£77m), money the government certainly lacks at present.

Secondly, there is the question of whether the government tries to raise funds from the disposal of other resource interests, such as its 22.5 per cent share in Kutubu. According to Mr Haiveta, McIntosh, the Australian broking firm which has an office in Port Moresby, had been asked to do a full valuation of all assets. Both he and Sir Julius also remain enthusiastic about the prospect of a local PNG stock exchange, on which some holdings might eventually be sold.

But whether such moves persuade the international investment community that PNG has become a significantly better risk, when the economic situation remains so parlous, has yet to be seen. An abrupt decision to float PNG's currency, the kina, last October, may not have helped, smacking for some of the country's familiar unpredictability. "I think people want to see runs on the board," says one mining executive.

Last week, Sir Julius was being realistic. Noting that his own ascent to the office has already come under legal challenge from political opponents – precisely the manoeuvre that felled Mr Wingti – he said only that he hoped to see "a little glow at the end of the tunnel" in six months time.

Old gold mines index to go

The Financial Times will cease calculating and publishing its old gold mines index after February 28, 1995. The index, which is based on the performance of South African companies only and was launched in September, 1955, was replaced by one with a broader scope earlier this year.

Gold mining companies from all over the world are included in the new index if they:

● Have sustainable, attributable gold production of at least 300,000 ounces a year;
● Draw at least 75 per cent of revenue from mined gold sales;
● Have at least 10 per cent of their issued capital available to the investing public.

These conditions mean that there are no set number of constituents and the eligibility of each company will be reviewed four times a year.

Copies of the list of constituent companies and of the ground rules of the FT Gold Mines Index are available from The Manager, FT Statistics, One Southwark Bridge, London SE1 9HL. A disc with the index's history will be available from the same address when calculation of the predecessor index series ceases.

The Mining Journal provides technical and financial information to assist calculation of the FT Gold Mines Index.

At present in the new index Australasia is represented by Dominion Mining; Gold Mines of Kalgoorlie; Homestake Gold Australia; Newcrest Mining; Placer Pacific; Plutonic Resources and Poseidon Gold. Canadian constituents include American Barrick Resources; Cambior; Echo Bay Mines; Hemlo Gold Mines; Pegasus Gold; Placer Dome and TVX Gold.

From Ghana there is Ashanti Goldfields and South Africa is represented by Beatrix; Buffelsfontein; Driefontein; Elandsrand; Freegold; Harmony; Hartebeestfontein; Kinross; Kloof; Randfontein; Southvaal; Vaal Reefs; Western Areas; Western Deep Levels and Winkelhaak.

US Mines in the new index include Battle Mountain Gold; Homestake Mining; Newmont Gold and Santa Fe Pacific Gold.

EU agriculture ministers agree environmental set-aside plan

By Deborah Hargreaves

European Union farm ministers agreed yesterday to draw up new rules on cereal acreage set-aside enabling farmers to plant trees or opt for environmental improvement schemes on idled land.

Farmers are required to set aside 12 per cent of their arable land this year in an effort to curb over-production of cereals. Under the current rules, producers are not allowed to use land planted with trees or turned over to environmental management schemes to count towards their set-aside allocation. Environmentalists say this has discouraged many farmers from taking up some of the schemes that are available.

The UK has been pushing hard for a change in the set-aside rules and welcomed the council's commitment to link market and environmental set-aside. The European Commission will now draw up formal proposals.

Mr William Waldegrave, UK agriculture minister, said: "The Commission's report endorses our view that we should be allowed to promote more environmentally sensitive use of set-aside, especially on marginal land".

Farmers are expected to be able to put their set aside land into a variety of schemes including: recreating flood meadows, grazing marshes and other wetlands, re-establishing lowland heath land, creating reed-beds to benefit wildlife as well as planting trees.

The Royal Society for the Protection of Birds said the decision "has taken a very important step towards restoring the UK countryside".

MARKET REPORT

Cocoa futures firmer

COCOA futures closed firmer at the London Commodity Exchange yesterday, helped by short-covering and technical chart support. A bullish New York, fuelled by investment fund and speculative buying, was also encouraging, traders said.

The March contract closed £42 up at £973 a tonne, and just off a high of £985.

"Short covering has been the main dynamism but there was also a strong technical motivation," a trader said.

There was little momentum driving the PRECIOUS METAL markets after a lack-lustre morning and quiet start to the New York session, dealers said.

GOLD continued to edge higher, closing in London at $379.85 a troy ounce, up 75 cents on the day and $2.25 on the week so far.

At the London Metal Exchange NICKEL's recovery from its early-week shake-out continued at great pace with speculators falling over themselves to get back into the volatile market. Short-covering and stop-loss buying fuelled the rise, which saw three months business up to $8,890 a tonne before trade selling and profit-taking reversed the trend.

Compiled from Reuters

Sugar price consolidation 'to continue'

Sugar prices are likely to stay in their current consolidation phase with big importers such as China and Russia staying away until well into next year, according to broker C. Czarnikow.

In its month Sugar Review Czarnikow said: "Although renewed strength may well emerge during the course of next year, there is now less certainty about the direction which the market might take in the short-term and there is likely to be a period of consolidation".

The recent rise in sugar prices had taken place earlier than might have been expected, it added.

JOTTER PAD

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1871-3	1903-5
Previous	1829-30	1860-1
High/low	1855.5/1855	1909/1875
AM Official	1855-5.5	1887.5-8.5
Kerb close		1907-08
Open int.	253,201	
Total daily turnover	59,532	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1825-35	1865-75
Previous	1780-90	1820-30
High/low	1800	1865/1840
AM Official	1795-800	1830-40
Kerb close		1855-65
Open int.	2,937	
Total daily turnover	389	

■ LEAD ($ per tonne)

Close	634.5-5.5	653-4
Previous	614-5	632-3
High/low		655/638
AM Official	630-1	647-8
Kerb close		652-3
Open int.	42,970	
Total daily turnover	7,627	

■ NICKEL ($ per tonne)

Close	8605-15	8755-60
Previous	8305-15	8455-60
High/low		8890/8475
AM Official	8620-25	8775-85
Kerb close		8770-90
Open int.	68,739	
Total daily turnover	18,750	

■ TIN ($ per tonne)

Close	5890-900	5995-6000
Previous	5805-15	5910-15
High/low		6010/5920
AM Official	5880-5	5980-82
Kerb close		5990-6000
Open int.	22,780	
Total daily turnover	4,751	

■ ZINC, special high grade ($ per tonne)

Close	1117-8	1144-5
Previous	1083.5-4.5	1112-13
High/low	1113	1148/1125
AM Official	1113.5-14.0	1141.5-2.0
Kerb close		1145-6
Open int.	106,892	
Total daily turnover	26,543	

■ COPPER, grade A ($ per tonne)

Close	3038-40	2979-80
Previous	2957-60	2905-7
High/low	3015/3010	2990/2928
AM Official	3012-15	2945-6
Kerb close		2960-62
Open int.	238,365	
Total daily turnover	62,209	

■ LME AM Official £/$ rate: 1.5609
LME Closing £/$ rate: 1.5620

Spot:1.5630 3 mths:1.5628 6 mths:1.5624 9 mths:1.5622

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	Low	Open int	Vol
Dec	138.90	+2.40	139.70	138.00	4,146	645
Jan	138.65	+2.90	139.55	137.58	1,774	89
Feb	137.50	+2.15	136.70	136.70	764	11
Mar	136.15	+1.90	137.20	135.65	28,814	8,391
Apr	132.65	+1.40	-	-	759	95
May	129.70	+0.95	131.50	129.70	3,894	705
Total					50,516	11,982

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	379.70-380.00	
[illegible]	[illegible]	[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

[illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

[illegible]

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

[illegible]

■ CRUDE OIL IPE ($/barrel)

[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

[illegible]

■ GAS OIL IPE ($/tonne)

[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US gall.; c/US galls.)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	107.55	+0.05	108.15	107.50	1,030	125
Mar	108.75	+0.30	109.15	108.45	1,753	248
[illegible]						

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

■ BARLEY LCE (£ per tonne)

[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LCE (£/tonne)

[illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point)

[illegible]

Wool

[illegible]

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	989	+55	987	971	3,623	70
Mar	973	+42	985	947	48,424	10,583
[illegible]						

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LCE ($/tonne)

[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

[illegible]

■ WHITE SUGAR LCE ($/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
[illegible]						
Oct	73.08	+0.53	75.15	74.70	1,281	310
Dec	72.33	+0.43	72.50	72.00	6,140	483
Mar	73.15	+0.45	73.80	73.00	83	1
Total					57,288	7,788

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	113.35	-0.40	-	-	10,174	1,834
Mar	117.15	-0.15	117.30	116.30	8,554	840
May	120.00	-	120.00	118.25	1,646	202
Jul	122.75	+0.05	-	-	939	44
Sep	126.00	+0.30	126.00	126.00	2,228	148
Nov	125.25	-0.45	123.75	123.60	1,552	1
Total					25,857	4,412

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Dec 15	Dec 14	month ago	year ago
2165.2	2168.0	2146.1	1673.9

■ CRB Futures (Base: 1967=100)

Dec 14	Dec 13	month ago	year ago
229.64	229.23	233.61	224.63

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	70.575	-	70.750	70.325	3,984	2,515
Feb	70.500	+0.325	70.650	70.150	30,656	8,393
[illegible]						

■ LIVE HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lb)

[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME

[illegible]

■ COPPER (Grade A) LME

[illegible]

■ COFFEE LCE

[illegible]

■ COCOA LCE

[illegible]

■ BRENT CRUDE IPE

[illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Feb)

[illegible]

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

[illegible]

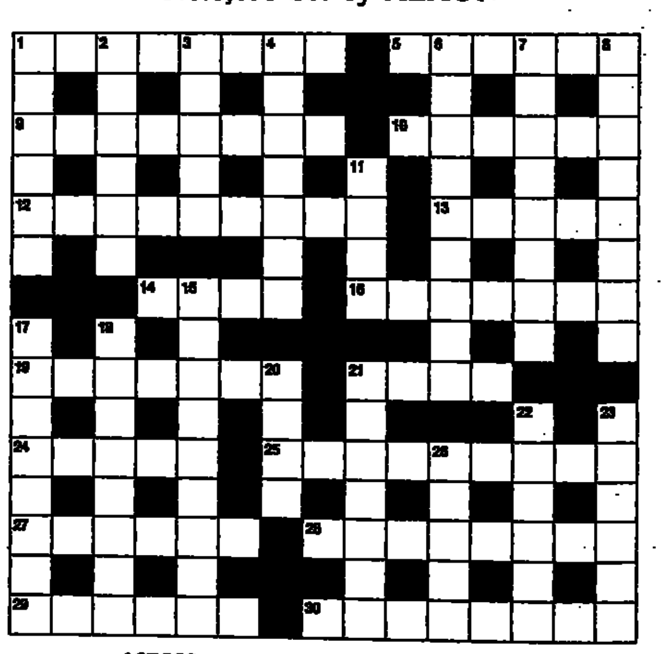
■ OTHER

Gold (per troy oz)‡	$379.85	+0.75
Silver (per troy oz)‡	480.0c	+1.50
Platinum (per troy oz.)	$409.25	-2.00
Palladium (per troy oz.)	$152.00	-0.25
Copper (US prod.)	141.0c	+2.0
Lead (US prod.)	40.75c	
Tin (Kuala Lumpur)	14.83r	-0.17
Tin (New York)	277.5c	+5.0
Cattle (live weight)†	120.28p	-1.61*
Sheep (live weight)†♣	114.36p	-5.46*
Pigs (live weight)	81.78p	+0.18*
Lon. day sugar (raw)	$355.70	-0.40
Lon. day sugar (wte)	$407.50	-3.50
Tate & Lyle export	£342.00	
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	£132.0	
Wheat (US Dark North)	£165.0	
Rubber (Jan)♥	101.50p	+0.50
Rubber (Feb)♥	101.00p	+0.50
Rubber (KL RSS No1 Jul)	378.0m	+3.00
Coconut Oil (Phil)§	$687.5y	-2.5
Palm Oil (Malay.)§	$710.0z	-10.0
Copra (Phil)§	$446.0q	-2.0
Soyabeans (US)	£170.0z	-1.0
Cotton Outlook'A' Index	88.75c	+0.10
Wooltops (64s Super)	470p	+8.0

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jan/Feb. v Nov/Dec. u Feb. z Jan. q Dec/Jan ♥ London Physical. § CIF Rotterdam. ‡ Bullion market close. ♣ Sheep (Live weight prices). * Change on week © Prices are for previous day.

CROSSWORD

No.8,638 Set by ALAUN



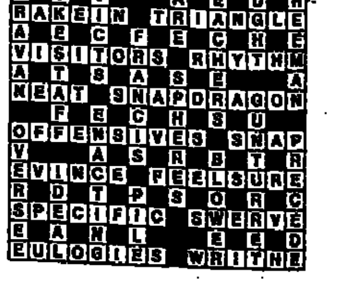
ACROSS

1 Plus a funny animal held in the hand (8)
5 Light when you manage to go to sleep (3,3)
9 And, carried by the porter, bulge (5,3)
10 Not those, in short, turning the key to enter (6)
12 The signal for take off (5,4)
13 Registered among the famous (5)
14 Splashed, the cat went off – rushed off (4)
16 Support given to an old mate (7)
19 Because reflected in the glass is the word "blasphemous" (7)
21 Looking embarrassed, left (4)
24 Having finished off the port after the beer, is not fuddled (5)
25 The feeling that one's going over big? (9)
27 She's back by 4.50 – in time (6)
28 Tend to take a little rest after working out (8)
29 The invective, when I get stuck in the traffic! (6)
30 Broke an egg into the breadcrumbs (8)

DOWN

1 Suppose the other bird will follow the booby back (6)
2 Prairies that have trees, you say (6)
3 The assistants are positioned at a side-turning (5)
4 Worked at school – it's just not natural! (7)
6 The telephone number one six ten is wrong (9)
7 Passed with a clear round, all right (8)
8 Why Lent goes by so quickly? (4,4)
11 She used to be one of the foreign buyers (4)
15 Drunk coming out of the casualty ward? (9)
17 It's obvious father will have to go back by himself (8)
18 Besides, it's further across (8)
20 Point the first L out in "smallest" (4)
21 Writes one a little verse – very thoughtful (7)
22 The beer is a little watery? No way! (6)
23 Accustomed as one is to the underground (6)
26 Frightening a member of the team (5)

Solution 8,637



هكذا من الاصل

LONDON STOCK EXCHANGE

MARKET REPORT

Impending expiry and bid failure upset equities

By Steve Thompson

News that merger discussions between S.G. Warburg and Morgan Stanley had been terminated hit the UK equity market like a bombshell and eroded much of the recent takeover enthusiasm in London.

The news, coupled with determined efforts by some marketmakers to drive the market down ahead of this morning's expiry of the December Footsie future, saw an early attempt by the FT-SE 100 Index to break through the 3,000 barrier come to nothing.

At the end of a session fraught with anxiety for some of the speculators that have piled into the merchant banks and utilities areas, the FT-SE 100 Index settled 7.2 down at 2,973.4, only marginally above the day's low of 2,973.2.

The late slide in the FT-SE 100 also impacted on the market's second-liners, with the FT-SE Mid 250 Index, which posted a 16-point gain in mid-morning, closing only 8.3 ahead on balance at 3,413.9.

Adding to the speculators' worries was a sharp fall in shares of Northern Electric. However, many of the other regional electricity stocks continued to make rapid progress amid a general feeling that a spate of takeover bids in the sector could materialise in coming months. Water stocks, too, were viewed as takeover targets.

Market observers were surprised at the late sell-off, pointing out that European markets had been expected to take heart from another impressive showing from Wall Street, which shrugged off slightly disappointing news of the Philadelphia index and powered ahead shortly after the opening when it was trading around 20 points higher.

Brokers were by no means disheartened by the day's news. "UK plc is at just the right stage of the cycle to attract a surge of takeover activity; the stock market is not overbought, inflation is under control and there are plenty of cash rich companies looking to expand and pick up good quality assets. January and February will be good months to be in the stock market," was the view of one senior broker.

Earlier, the UK market had performed well, coming within two points of the 3,000 mark on the FT-SE 100, after news that retail sales remained sluggish in November, news that was seen as consistent with trends revealed in the last Confederation of British Industry survey of distributive trades.

With the market still bubbling from talk of plenty more takeover bids to come in the near future, the FT-SE 100 was trading around 13 points up when details of the aborted merger talks between S.G. Warburg and Morgan Stanley filtered into the market.

Dealers said many speculators simply panicked and there was talk of severe losses among private investors.

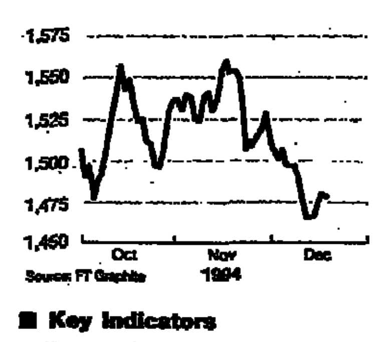
Towards the close of business, however, there was keen support for Warburg shares amid stories of other potential bidders already holding talks with the UK's premier merchant bank.

But with Morgan Stanley seen as keen to take in a top investment management group, there were good gains in that area of the market, groups such as Gartmore, Henderson Administration, Johnson Fry, M & G and Perpetual all attracting support.

As Warburg tumbled, so did the FT-SE 100. It dipped into the red over the lunchtime period and continued to slip away for the rest of the session.

Although subdued by the day's events, dealers expressed satisfaction at the upturn in activity in recent sessions. Turnover fell just short of 700m, with non-FT-SE 100 stocks accounting for 59 per cent of the total. The value of customer business this week is well up on recent trading sessions, with Wednesday's figure reaching £1.58bn, compared with Tuesday's £1.6bn and the previous week's best of £1.34bn.

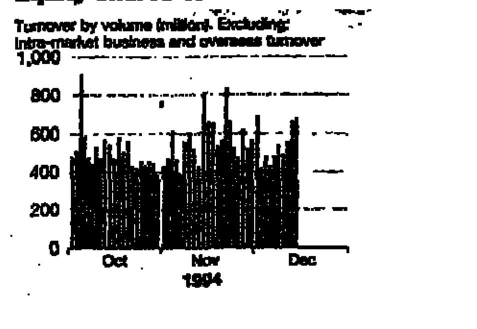
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key indicators

Indices and ratios

FT-SE 100	2973.4	-7.2	FT Ordinary index	2289.7	-2.9
FT-SE Mid 250	3413.9	+8.3	FT-SE-A Non Fins p/e	17.58	(17.76)
FT-SE-A 350	1492.8	-1.9	FT-SE100 Fut Dec	2974.0	-4.0
FT-SE-A All-Share	1479.60	-1.59	10 yr Gilt yield	8.56	(8.62)
FT-SE-A All-Share yield	4.14	(4.13)	Long gilt/equity yld ratio:	2.08	(2.10)

Best performing sectors		Worst performing sectors	
1 Household Goods	+1.2	1 Merchant Banks	-5.5
2 Gas Distribution	+0.9	2 Life Assurance	-1.3
3 Building & Construc	+0.5	3 Distributors	-0.9
4 Investment Trusts	+0.4	4 Insurance	-0.8
5 Food Manufacturers	+0.4	5 Water	-0.7

Warburg hit as talks fail

The bull case for S.G. Warburg sagged yesterday as the merchant bank announced that its merger talks with Morgan Stanley, of the US, had foundered.

The sticking point in the deal was Mercury Asset Management, Warburg's 75 per cent-owned fund management arm. Morgan Stanley said Mercury shareholders demanded too high a price and it was not prepared to take Warburg on its own.

Many analysts were still looking confidently towards the next stage. They believe Warburg has put up the "For Sale" sign and expect other potential buyers to appear. They added that with a hostile bid out of the question, contenders will have to pay a premium price to buy off the recalcitrant MAM shareholders, and £12 a share was still in sight. Others are more cynical. One leading analyst said: "I do not see anyone coming to buy yesterday's merchant bank."

The news that the deal was off came when many dealers were at lunch and sent Warburg's share price spiralling downwards. The sudden shift of the price at which dealers were prepared to offer stock prompted a sharp backwardation – a situation where bid and offer prices are technically reversed. The shares tumbled 80, bounced and then dropped back to close 99 off at 699p with 4.9m traded. Mercury Asset Management fell 67 to 678p.

The news took the shine off the other perceived bid targets within the sector. Smith New Court lost 12 at 415p and Kleinwort Benson shed 22 to 519p.

Profit-taking in bid target Northern Electric gathered pace after the Department of Trade and Industry emphasised that it would hold on to its golden shares in UK utilities until March 1995.

Trafalgar House confirmed market speculation on Wednesday that it was considering a bid for Northern. Analysts were not completely surprised by the DTI announcement, but one said: "This is just prolonging the inevitable."

Shares in Northern reversed Wednesday's strong rise and slipped 26 to 984p in busy trade of 2.4m. The company also said it had requested a stock exchange enquiry into the rise in its shares before Trafalgar stated its intentions.

The view taken by some analysts is that there is better value elsewhere in the sector. Mr Kevin Lapwood at Smith New Court was among those that back such a view and he said: "On a break-up value we would rate Northern at 1160p. But we value Norweb at 1280p, East Midlands at 1100p and South Wales at 1250p."

Norweb also suffered from profit-taking and retreated 9 to 791p, but East Midlands jumped 29 to 798p and South Wales moved forward 7½ to 834½p.

Other big moves included Manweb, up 24 at 855p, and Midlands, 32 higher at 836p.

Trafalgar, which advanced 1½ to 73½p, was boosted by the release of favourable full-year figures which saw the company turn a £347m loss last year into a £45.6m profit this year. The group also ruled out a rights issue should it decide to go ahead with a bid for Northern.

Pharmaceuticals stocks received support in the US with some feeling that the sector will receive a fundamental re-rating next year. There was some technical London selling ahead of futures expiry in the UK but there was specific interest in SmithKline Beecham, up a penny following a well-received presentation earlier in the week, and Zeneca, which is perceived as a possible bid candidate and which gained 6 to 858p. Wellcome, has attracted steady takeover speculation but the shares were restrained yesterday as the market reacted to a story in the US which was critical of Aids drug combinations. Wellcome manufactures the leading Aids treatment AZT or Retrovir.

Positive clinical trial reports from Scotia Holdings over its cancer treatment saw the shares jump 21 to 274p.

Asda's strong interims helped push the shares up ½ to 64p but turnover was relatively modest at 6.6m and the rest of the sector was mostly turned easier. J. Sainsbury dipped 2 to 388p and Tesco shed 3p to 234p.

The results were comfortably ahead of City expectations and most securities houses upgraded full year profit forecasts, although reduced depreciation accounted for most of the unforeseen gains.

BZW's full year estimate was moved up by £15m to £230m with the investment bank taking a shine to like-for-like sales growth of 7 per cent over the first 28 weeks of 1994-95.

Standard Chartered rose 13 to 275p as various houses stressed their positive views following news that the bank is to reduce costs through staff cuts.

Abbey National improved a penny to 407p as James Capel published a buy recommendation arguing that the former building society would benefit from lower cost base and increased market share.

Media conglomerate Pearson dropped 12 to 557p on unwinding of technical long positions.

Yorkshire TV fell 7 to 373p on turnover of 3m with investment fund M&G believed to have contributed heavily to the selling.

Food manufacturers were a mixed bag. Unilever rose 13 to 1123p following a buy recommendation from NatWest Securities but Cadbury-Schweppes eased a further 9 to 395p for a two-day decline of 14 as worries built up over the possibility of soft drink demand looking sick against warm-weather inflated 1994 volumes.

News that A.G. Barr, number three in the soft drinks league, had gained the take-home franchise for Orangina International helped lift Barr shares 13 to 383p. Edible oils specialist Acatos & Hutcheson jumped 14 to 264p on the back of strong prelims and an extra penny on the dividend.

A complex deal involving a steel mill disposal, an effective share buy-back, a rights issue and a French acquisition led to heavy trading in ASW which closed 20 higher at 315p in 1.7m turnover.

Motor components group B.S.G. International also met with big turnover. Following boardroom moves and a meeting with analysts the shares rose 1½ to 55½p in 7.1m traded.

Housebuilders managed a modest rebound with Barratt Development improving 6 to 151p in 1.6m turnover and Bryant adding 3½ to 122p. The improving sentiment was helped by a return to profit at Y.J. Lovell which bounded ahead by 12 per cent - rising 7 to 60p.

Among building materials Blue Circle shed 5 to 265p in contrast to Rugby which gained 3½ to 106p. RMC slid 23 to 941, although in each case trading volume was nominal.

MARKET REPORTERS: Peter John, Joel Kibazo, Jeffrey Brown.

■ Other statistics, Page 21

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (22).

DIVERSIFIED INDLS (1) Hewitt, ELECTRICITY (4) Midlands, Seeboard, South Wales, South Western, ELECTRNC & ELECT EQUP (2) Copymore, VideoLogic, ENGINEERING (2) Lincat, Vinten, ENG, VEHICLES (2) First Technology, Irish Permanent, FOOD MANUF (1) Barr (AG), INVESTMENT TRUSTS (6) MEDIA (1) Metal Bulletin, OIL EXPLORATION & PROD (1) Aran Energy, PRTNG, PAPER & PACKG (2) Portals, Tinsley Robor, TRANSPORT (1) Badgerline.

NEW LOWS (86).

GILTS (1) BANKS (1) BREWERIES (1) Vaux, BUILDING & CNSTRN (4) CALA, Persimmon, Raine, Wimpey (G), BLDG MATLS & MCHTS (2) Blue Circle 7¾pc Prf., Dyson (J & J), CHEMICALS (2) Hickson Int'l., Manders, DISTRIBUTORS (4) Brown & Tawse, Malaya, Millgate, Walpac, DIVERSIFIED INDLS (3) ELECTRNC & ELECT EQUP (4) CML Microsystems, Kenwood Appliances, LPA Ind, Volex, ENGINEERING (4) Aromascan, ML McKechnie, SKF, ENG, VEHICLES (2) Mayflower, Mid-States, EXTRACTIVE INDS (1) MIM, FOOD MANUF (2) Cadbury Schweppes, Peacock's, HEALTH CARE (1) Amersham Int'l, HOUSEHOLD GOODS (4) Alspnung Furniture, Black (P), Creighton Naturally, Jeyes, INSURANCE (1) Premium Trust, INVESTMENT TRUSTS (11) INVESTMENT COMPANIES (1) Wainhomes, LEISURE & HOTELS (1) Hornby, LIFE ASSURANCE (1) Refuge, MEDIA (3) Barbour Index, Osprey Comms., Quarto 8½p, OIL EXPLORATION & PROD (1) Sterling Resources, OIL, INTEGRATED (1) Burmah Castrol, OTHER FINANCIAL (6) OTHER SERVS & BUSNS (7) [illegible] PHARMACEUTICALS (1) [illegible] PROPERTY (15) [illegible] RETAILERS, FOOD (1) [illegible] RETAILERS, GENERAL (5) [illegible] SUPPORT SERVS (7) [illegible] TEXTILES & APPAREL (1) [illegible] TRANSPORT (1) [illegible] AMERICANS (1).

EQUITY FUTURES AND OPTIONS TRADING

Stock index futures moved narrowly in low volume, with trading mostly underpinned by profit-taking on the back of Wednesday's strong gains, writes Jeffrey Brown.

The FT-SE 100 December contract, which expires this morning, stood at 2,974 at the close of pit trading, down four points. The March contract was three points easier at 2,994.

The December contract was right in line with the cash market, while March closed at a 19-point premium – broadly in the middle of dealers' range of fair value premiums.

In contrast to Wednesday when the session was marked by steady buying, activity was flat, with less than 15,000 contracts traded and substantial spread trading into the March contract.

Where there was business it was mostly generated by profit-taking, although expiry influences and year-end book adjustments were clearly also factors at play. The best of the day for the March contract was 3,000.

Option turnover was also dull, tailing away to 30,688 lots from 43,329 on Wednesday. Put volume had the edge on calls, while FT-SE and Euro FT-SE trading accounted for just under 22,000 contracts.

Abbey National was the most active stock option, followed by Scottish Power and Cadbury-Schweppes. Abbey National saw 2,020 lots transacted.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	2968.0	2974.0	-4.0	3000.0	2965.0	16407	25246
Mar	3000.0	2996.0	-	3015.0	2987.5	11002	41960
Jun	3019.0	3005.0	-	3021.0	3000.0	750	3488

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3420.0	3414.5	+9.5	3420.0	3420.0	45	1774
Mar	3451.0	3445.0	+10.0	3455.0	3451.0	190	3692

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	3410.0	-	-	-	-	287

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*2975) £10 per full index point

[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

[illegible]

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	879	331½	-1½
ASDA Group†	7,000	64	+½
Abbey National†	2,200	407	+1
Albert Fisher	546	45	+1
Allied Domecq†	3,300	537	+3
[illegible]			

FT-SE Actuaries Share Indices — The UK Series

[illegible]

■ FT-SE Actuaries All-Share

[illegible]

■ Hourly movements

[illegible]

■ FT-SE Actuaries 350 Industry baskets

[illegible]

LONDON EQUITIES

RISES AND FALLS YESTERDAY

[illegible]

TRADITIONAL OPTIONS

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FINANCIAL TIMES EQUITY INDICES

[illegible]

LIFFE EQUITY OPTIONS

[illegible]

FT GOLD MINES INDEX

[illegible]

LONDON SHARE SERVICE

BANKS

	Notes	Price	+ or -	1994 High	1994 low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl	□	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.0	ϕ
ANZ A$		202	+4	[illegible]	171	[illegible]	6.2	ϕ
Abbey National	†N□	407	+1	[illegible]	[illegible]	[illegible]	4.8	13.7
Allied Irish IR	†N□	[illegible]	+1	314	[illegible]	[illegible]	5.1	9.6
Anglo Irish IR	N□	[illegible]	[illegible]	[illegible]	60	[illegible]	[illegible]	ϕ
Asahi Y	□	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.6	ϕ
Banco BB Viz Pta	□	[illegible]	—	[illegible]	[illegible]	[illegible]	5.0	7.4
Banco Sant Pta		[illegible]	—	[illegible]	[illegible]	3,722	5.8	8.6
Bk Ireland IR	†N□	[illegible]	—	[illegible]	246	1,367	5.0	8.3
Bank Scotland	†N□	[illegible]	-2	[illegible]	[illegible]	2,382	3.3	11.5
9¼pc Pf		117½	+¼	141½	106	117.5	9.8	—
9¾pc Pf		123¼	+½	148½	111¾	123.2	9.9	—
Barclays	†N□	[illegible]	+1	640	487	[illegible]	3.5	16.3
Dai Ichi Kgn Y	□	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.6	—
Deutsche DM	□	[illegible]	[illegible]	[illegible]	[illegible]	13,458	2.3	—
Espirito Santo	□	[illegible]	—	[illegible]	[illegible]	174.6	4.7	4.1
First Nat Fin	N□	[illegible]	—	[illegible]	[illegible]	[illegible]	3.2	—
6.3pc Cv Pf		[illegible]	—	[illegible]	[illegible]	4.57	11.6	—
7pc Cv Pf		111xd	—	171	110	52.7	7.9	—
Fuji Bank Y	□	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.4	ϕ
HSBC HK	†N□	[illegible]	+7	1139	664	12,895	4.4	10.0
HSBC (75p Shs)	†N□	[illegible]	+5	1113	690	[illegible]	4.4	10.1
Irish Permanent	N□	225	+2	225	205	171.3	5.3	7.8
Lloyds	†N□	[illegible]	-3	[illegible]	519	7,061	5.3	10.7
Mitsubishi Y	□	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.4	ϕ
Mts Tst & Bk Y	□	[illegible]	+14¼	[illegible]	[illegible]	10,080	0.6	14.3
Mitsui Tst & Bk Y	□	[illegible]	+12	[illegible]	614	7,616	0.9	21.0
Nat Aust A$		[illegible]	+6	[illegible]	472	7,166	6.8	ϕ
NatWest	†N□	[illegible]	-3	622	421	[illegible]	4.9	9.3
Ottomane FFr		£21½	—	£33	£21	107.5	8.8	ϕ
Rl Bk Scotland	□	[illegible]	-3	[illegible]	377½	3,176	4.3	9.6
Sakura Y	□	[illegible]	[illegible]	[illegible]	[illegible]	27,937	0.6	51.6
Sanwa Y	□	£12¼	[illegible]	£15¼	[illegible]	35,999	0.5	—
Standard Chartd	†N□	278	+13	[illegible]	223	2,661	2.9	9.4
7 3/8pc Prf		96	+¾	109½	82¼	94.8	9.8	—
Sumitomo Y	□	[illegible]	[illegible]	[illegible]	[illegible]	30,596	0.5	—

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL EXPLORATION & PRODUCTION - Cont.

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PHARMACEUTICALS

[illegible]

PRINTING, PAPER & PACKAGING

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings

K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for

W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £[illegible] a year for each security shown, subject to the Editor's discretion

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FT Cityline

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 71) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

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ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

MANAGED FUNDS NOTES

CURRENCIES AND MONEY

MARKETS REPORT

Italian lira firms despite political uncertainty

The Italian lira yesterday finished firmer on the foreign exchanges despite lingering political uncertainty in the country, *writes Philip Gawith.*

The lira closed in London at L1,039 against the D-Mark from L1,042. It was buoyed by rallies in the futures and equity markets, where foreign buying was evident. The lira was also helped by some D-Mark selling, as investors took profits following the recent rally.

Although Italy appears most likely to provide some sort of currency move in the Christmas period, markets are showing increasing signs of having shut up shop for the year.

The only scheduled events now likely to shift foreign exchanges from their torpor are the Federal Open Market Committee meeting next Tuesday, and the Bundesbank council meeting on Thursday.

The dollar had a very subdued day, finishing little changed at DM1.5718, from DM1.5691, and at Y100.31 from Y100.26.

Sterling also traded in a very narrow range, with the trade weighted index unchanged all day at 80.3. It closed at DM2.4542 and $1.5615.

In Europe, Mr Jean-Claude Trichet, governor of the Bank of France, said the franc had room to appreciate. He said the Bank was determined to keep the franc stable during the coming presidential elections. It recently touched a 12 month low.

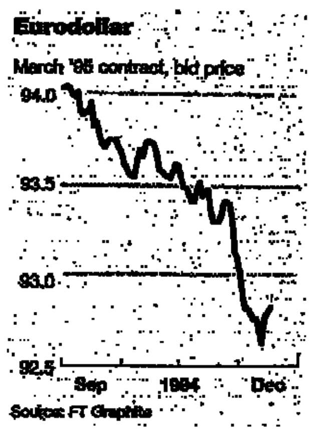
■ Financial markets appear now to be working on the premise that Mr Berlusconi, the prime minister, and his government, will not survive. Not only is opposition outside the government intensifying, but opposition from within the coalition has also picked up.

Political analysts have also interpreted negatively the length – seven hours – of Mr Berlusconi's meeting, earlier this week, with magistrates investigating corruption.

Mr Giorgio Radaelli, international economist at Lehman Brothers, said he felt fairly sure that Italy would have a new government by early February. The implications of this scenario for the lira, however, are uncertain.

Mr Radaelli comments: "I think the lira has pretty much discounted all bad news. The foreign component of the market particularly would like to see a new prime minister. There was a clash between Berlusconi and Bossi (a coalition partner) which made this government very unproductive over the past three months. The bond market also didn't like Berlusconi's populism."

On the other hand, markets are worried about a possible government hiatus lasting a few weeks. Mr Radaelli said these concerns had the potential to take the lira lower, although this could be offset by the passage of the budget.



Source: FT Graphite

■ While the dollar is trading steadily, the short-term risks appear to be on the downside. The price component of the Philadelphia index was weaker than market expectations. It was the latest of a string of figures suggesting that the Fed might leave interest rates on hold when it meets next week.

The March eurodollar contract rose to 92.81, from 92.76, reflecting the market's increasing conviction that rates may not rise until the new year.

Mr Peter Luxton, analyst at MMS, commented: "The dollar is a bit vulnerable to that. It has been built up on expectations of a Fed tightening."

The dollar has rallied since late October. It has risen by around 5.5 per cent against the D-Mark, and 3.5 per cent against the yen. While many observers have wondered whether this might mean the dollar has bottomed, dollar bears remain unrepentant.

A Swiss Bank source said the dollar was more likely to see Y80 before it saw Y120. Contrary to analysts suggesting that the US's current account deficit had peaked, he said the 1994 figure could get close to the 1987 record, with 1995 perhaps exceeding it.

Also bearish is S G Warburg, which remains "fundamentally negative about the US dollar...Our view is that the late 1994 recovery in the US dollar constitutes little more than a pause in its downtrend and that renewed depreciation to around DM1.40 and Y93 lies ahead over the next several months."

On a 12-18 month view, however, the investment bank believes a cyclical recovery will take the dollar back to around DM1.65 and Y112.

■ In its daily operations, the Bank of England cleared a £1.35bn shortage at established rates. Overnight money traded in the 4-6½ per cent range.

■ Pound in New York

Dec 15	Latest	Prev. close
£ spot	1.5640	1.5620
1 mth	1.5639	1.5619
3 mth	1.5636	1.5616
1 yr	1.5629	1.5607

■ OTHER CURRENCIES

Dec 15	£	$
Hungary	176.065 - 176.323	112.798 - 112.880
Iran	2728.00 - 2732.00	1748.00 - 1750.00
Kuwait	0.4680 - 0.4690	0.2998 - 0.3003
Poland	37947.9 - 38081.8	24310.0 - 24330.0
Russia	5293.50 - 5298.20	3390.00 - 3393.00
U.A.E.	5.7329 - 5.7370	3.6726 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Dec 15		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.2704	+0.0167	615 - 793	17.2858	17.2415	17.2566	1.0	17.216	1.3	-	-	115.4
Belgium	(BFr)	50.4973	+0.0366	515 - 431	50.5680	50.3990	50.5223	-0.6	50.3923	0.8	49.8323	1.3	117.0
Denmark	(DKr)	9.6243	+0.0144	200 - 286	9.6289	9.6119	9.621	0.4	9.6265	-0.2	9.595	0.3	116.7
Finland	(FM)	7.6147	-0.0149	039 - 255	7.6430	7.5980	-	-	-	-	-	-	87.5
France	(FFr)	8.4639	+0.0132	591 - 686	8.4693	8.4524	8.4606	0.5	8.4576	0.3	8.4115	0.6	109.5
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 15		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria	(Sch)	11.0605	+0.016	580 - 630	11.0825	11.0480	11.053	0.8	11.0365	0.9	10.939	1.1	104.6
Belgium	(BFr)	32.3400	+0.039	200 - 600	32.3790	32.2800	32.325	0.6	32.275	0.8	31.92	1.3	106.1
Denmark	(DKr)	6.1637	+0.0122	627 - 647	6.1706	6.1524	6.1644	-0.1	6.1652	-0.1	6.1497	0.2	105.2
Finland	(FM)	4.8767	-0.0072	712 - 822	4.8979	4.8680	4.8745	0.6	4.8717	0.4	4.8572	0.4	81.8
France	(FFr)	5.4205	+0.011	190 - 220	5.4293	5.4110	5.4188	0.4	5.417	0.3	5.388	0.6	105.9
[illegible]													

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

BASE LENDING RATES

[illegible]

Fiduciary Issue by Kredietbank S.A. Luxembourgeoise to fund a loan to be made by it to

ISVEIMER

Istituto per lo Sviluppo Economico dell'Italia Meridionale

Italian Lire 150,000,000,000
Floating Rate Notes due 1997

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from December 16, 1994 to March 16, 1995 the Notes will carry an Interest Rate of 9.875% per annum.

The Interest Amount payable on the relevant Interest Payment Date, March 16, 1995 will be ITL 123,438 per ITL 5,000,000 principal amount of Note and ITL 2,468,750 per ITL 100,000,000 principal amount of Note.

The Agent Bank
Kredietbank S.A. Luxembourgeoise

To the Holders of
Restructured Obligations Backed by Senior Assets, B.V.

Pursuant to the Indenture dated May 1, 1990, as amended and restated as of June 15, 1990, between the Issuer and State Street Bank and Trust Company, as Trustee, notice is hereby given that for the Interest Accrual Period December 12, 1994 through March 9, 1995, the rates applicable to the Secured Senior and Secured Senior Subordinated Floating Rate Notes are 6.675 and 7.125 respectively.

To the Holders of
Yamaichi Securities Company, Ltd.
US $40,000,000
4 Per Cent. Bonds Due 1996

This is to notify that Asahi Bank (Belgium) S.A. will cease to act as Paying Agent and Warrant Agent with effect from 17th December, 1994.

By: The Bank of Tokyo Trust Company
as Trustee on behalf of
YAMAICHI SECURITIES CO., LTD.

Dated: 16th December, 1994

WORLD STOCK MARKETS

EUROPE

PACIFIC

NORTH AMERICA

AFRICA

FT FREE ANNUAL REPORTS SERVICE

TOKYO - MOST ACTIVE STOCKS: Thursday, December 15, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	5.8m	363	+6	Nissan Motor	3.6m	810	+5
Toshiba	5.4m	700	+8	Ito Yokada	3.3m	5200	+40
Kubota	4.8m	705	+7	Kawasaki Steel	3.1m	405	+8
Sumitomo Metal	4.1m	315	+7	Mitsubishi Heavy	2.9m	723	+9
Mitsui	3.9m	827	-1	Keio Teito	2.8m	574	+4

INDICES

US INDICES

Financial	41.78	41.16	40.74	45.94 (14/6)	39.87 (22/11)	48.40 (28/9/89)	8.64 (1/10/74)
NYSE Comp.	248.33	245.72	245.26	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	423.07	420.23	420.80	487.89 (2/2)	420.23 (13/12)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Comp	725.87	719.46	718.12	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

RATIOS

	Dec 9	Dec 2	Nov 25	Year ago
Dow Jones Ind. Div. Yield	2.88	2.84	2.87	2.66
	Dec 14	Dec 7	Nov 30	Year ago
S & P Ind. Div. yield	2.47	2.48	2.46	2.45
S & P Ind. P/E ratio	18.40	18.29	18.42	27.16

STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	-	454.80	-	-	-	32,177	86,367
Mar	458.10	458.30	+0.20	458.75	458.10	111,322	192,420
Jun	-	462.45	-	-	-	236	6,674

Open interest figures are for previous day.

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CAC-40 STOCK INDEX FUTURES (MATIF)

4 pm close December 15

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

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4 pm close December 15

NYSE COMPOSITE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close December 15

AMEX COMPOSITE PRICES

4 pm close December 15

AMERICA

Rates outlook helps Dow to build on gains

Wall Street

US shares added to yesterday's gains on speculation that the Federal Reserve would not raise interest rates next week, *writes Lisa Bransten in New York.*

By 1pm, the Dow Jones Industrial Average was up 17.83 at 3,764.12. The more broadly based Standard & Poor's 500 gained 0.76 at 455.73, the American Stock Exchange composite rose 1.15 to 424.22 and the Nasdaq composite grew 3.49 to 729.16. Trading volume on the NYSE came to 192m shares.

A survey by the Federal Reserve Bank of Philadelphia showed December business activity declining to 28.9 per cent. It was the second month that the index, derived from a survey of businesses, showed a drop in business activity.

That news, combined with low inflation figures released on Wednesday, was enough to persuade the market that the Fed would not raise interest rates again at the December 20 meeting of its open market committee.

In addition to the change in sentiment, share prices were pushed up by technical trading and program buying in advance of tomorrow's expiration of options and futures on stock indices in the last hour of trading.

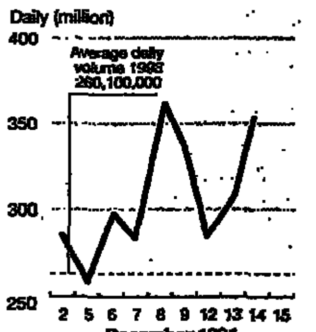
Morgan Stanley shares fell $\frac{3}{8}$ at \$60⅞ after the investment bank announced that *merger talks with SG Warburg* Group had been terminated.

Shares in JP Morgan added to Wednesday's decline, dropping \$⅝ at \$57⅞. The bank said on Wednesday that fourth quarter earnings would not be as high as those of the third quarter because of declining trading revenues, and yesterday an analyst at Goldman Sachs lowered his rating of the commercial bank from "market performer" to "market underperformer".

Sprint shares lost \$3⅛ at \$27⅞ after the company announced it expected fourth quarter income to be below that of the third quarter.

General Mills added to gains made on Wednesday afternoon after the company announced it would spin off its restaurant division. In the wake of that announcement, analysts at two securities firms raised their ratings on the stock. Share prices jumped \$1⅞ at \$57⅞ yesterday morning.

NYSE volume



Canada

Toronto stocks moved further ahead in active midday trading and dealers said the underlying tone was positive.

The TSE 300 composite index climbed 25.31 to 4,104.16 in brisk trade of C\$30.31m.

Industrial products were sent higher by advances in recently neglected high technology companies. Newbridge Networks appreciated C\$1⅞ to C\$45⅞ and Delrina moved up C\$1⅞ to C\$20⅞.

Brazil

Shares in São Paulo were off 2.9 per cent in nervous midday trade ahead of the options market settlement on December 19.

The Bovespa index dipped 1,428 to 48,341 at 1pm in turnover of R\$228.1m (\$268.4m).

Golds weaken in S Africa

Johannesburg was mixed, with gold shares, which had earlier been in positive territory, turning back later in the day to close with a loss of 60.3 at 1,831.6. Brokers attributed the change in sentiment to technical trading related to options expiry.

The overall index moved ahead 29.3 to 5,666.6 and industrials 73.6 to 6,827.3.

Dealers said the market did not respond to a stronger financial rand, which increases the price foreign investors pay for domestic shares. Among golds, Driefontein fell R3 or 5.2 per cent to R55 and Kloof R1.25 to R54.75.

EUROPE

Siemens boosts Dax ahead of triple-witching

Some bourses were thankful for the overnight rise in the Dow, *writes Our Markets Staff.* But at the end of the European day, they seemed unwilling to move on the prospect that Wall Street could rise for the second day *in succession.*

FRANKFURT waxed on Wall Street's overnight gains and on short-covering ahead of today's "triple-witching" expiry of DTB options and futures contracts. The Dax index rose 27.82 to 2,052.59 *on the session, with 16* points of that due to post-bourse gains on Thursday.

Turnover was flat at DM5bn. After hours, the Ibis-indicated Dax held its ground, closing at 2,054.23. Mr Jens Wieckling, at Merck Finck in Düsseldorf, said that 2,050 on the Dax was a crucial level for dealers ahead of the derivatives expiry, and that they had achieved this by bumping up the price of a few index heavyweights, particularly that of Siemens which ended the afternoon with a gain of DM18.50 at DM624.50. The electrical group's results and prospects, laid out yesterday, were in line with expectations.

Meanwhile, a better than expected report from Degussa last Tuesday earned more rewards, the shares *rising* a further DM13.80 to DM447 for a three-day gain of 5.8 per cent.

PARIS managed a slight rise in a session characterised by mixed trading. The CAC-40 index added 1.08 to 1,931.10 in *turnover of around FFr3bn.*

Following strength during the early part of the day, weakness in the bond market later reversed the trend.

Peugeot lost FFr6 to FFr747 after announcing that second *half results* would be more or less in line with earnings during the first six months of the year. Renault eased 50 centimes to FFr179.80 as it confirmed that it was to cut 1,735 jobs, while Michelin moved FFr2.40 ahead to FFr194.30.

Euro Disney rose another 15 centimes to FFr9.75, as it built on Wednesday's gains which came after the theme park operator said that it was to cut admission prices.

AMSTERDAM took in another steep fall in Fokker, off a further 16 per cent as the shares slid to a close of Fl 10.30. Not even news that it had secured an order for the sale of three of its 70 series aircraft to an Austrian operator could brake the downturn.

Investors have been unnerved by the announcement from the aircraft maker, in which *Dasa of Germany has* a majority stake, that it would be unable to make progress on cutting its losses this year, partly as a result of its exposure to the weak dollar. While Fokker's costs are incurred in guilders, the aircraft are sold in dollars.

The AEX index added 0.50 to 407.89, down from a session high of 409.221.

Unilever closed with a strong rise of Fl 2.10 to Fl 199.30, helped by a broker's buy recommendation, while KPN remained actively traded, putting on a further Fl 1.10 to Fl 56.70.

ZURICH held on to most of its early gains, as fears of US inflation *subsided after* Wednesday's economic data. The SMI index finished 16.6 stronger at 2,598.0.

Further strength in the pharmaceutical sector *led the market* higher. Roche certificates added SFr80 to SFr6,080 and Ciba, which reiterated its forecast of a slight increase in operating profits for 1994, rose SFr6 to SFr772.

CS Holding eased SFr4 to SFr529 on selling sparked by a newspaper report that Orange County, California planned to file a suit against its CS First Boston subsidiary.

Swiss Re was SFr10 higher at SFr789 as investors awaited a press conference, after the market closed, at which the insurer and CS Holding announced a strategic alliance to develop financial derivatives on reinsurance products.

Landis & Gyr extended Wednesday's advance rising SFr35 to SFr795, in a further response to the company's higher net profits and dividend. The share was further supported by a Credit Suisse buy recommendation.

SMH rose SFr20 to SFr618 with the announcement that it expected a lower 1994 profit coming as little surprise.

MILAN moved ahead on bargain hunting fuelled by some foreign demand. The Comit index rose 8.92 or 1.5 per cent to 591.83, many investors apparently having now discounted the early departure of Mr Silvio Berlusconi, the prime minister.

Bargain hunting lifted blue chips, Telecom Italia rising L169 or 4.7 per cent to L3,762 and Fiat picking up L166 to L5,498, recouping all of Wednesday's fall.

Credito Romagnolo added L536 to L18,347 as investors awaited news from Cariplo on whether it would launch a bid to rival Credito Italiano's offer. Italiano picked up L51 to L1,621.

Cartiere Burgo jumped L275 to L10,118 as it received another recommendation, this time from Mr Nicholas Potter at Credito Italiano International. With reduced energy costs, more modern plant and an improving paper price, Mr Potter expected the company to hit peak margins easily in 1997 and he forecast significant potential for the share price to rise over the next two years.

MADRID, down for its sixth trading day in succession, traded in line with a Kleinwort Benson prediction that short term bond market weakness could push equities lower. The general index fell another 1.91 to 297.43.

However, Ms Clare Miles of KB was still looking for a medium term recovery, saying that bond market stability and a recovery in consumer confidence, as well as stronger economic growth could take the index up to 345 by the end of next year.

HELSINKI was lifted by the forestry and engineering group, Repola, and the telecoms-based Nokia. The Hex index closed 13.0 ahead at 1,818.5, Repola putting on FM2.90 at FM84.90 on its plans to list its engineering subsidiary, Rauma. Nokia rose FM8 to FM680 following overnight gains on Wall Street.

Written and edited by William Cochrane, John Pitt and Michael Morgan

FT-SE Actuaries Share Indices

Dec 15								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1324.86	1325.19	1325.74	1325.76	1326.35	1327.17	1326.59	1326.74
FT-SE Eurotrack 200	1373.46	1374.20	1374.38	1374.47	1374.56	1375.03	1372.20	1372.89

	Dec 14	Dec 13	Dec 12	Dec 9	Dec 8
FT-SE Eurotrack 100	1316.82	1309.30	1308.12	1321.58	1333.80
FT-SE Eurotrack 200	1366.54	1356.66	1355.35	1367.17	1384.36

Base 1000 (26/10/90): High/day: 100 - 1328.02; 200 - 1375.86 Low/day: 100 - 1324.82 200 - 1371.82 † Partial

ASIA PACIFIC

Contrasts in Chinese stocks as Nikkei tops 19,000

Tokyo

Stocks moved up in active trading as institutional players returned to the buy side, *writes Robert Patton in Tokyo.*

The Nikkei 225 average gained 189.63 at 19,121.12, its first close above 19,000 in a week. It ranged from a low of 18,964.19 to a high of 19,177.54, profit-takers cutting back some of the rise near the close.

Volume increased from 219.4m to an estimated 269m shares. The Topix index of all first section stocks advanced 16.75 to 1,506.79 and the capital-weighted Nikkei 300 added 2.29 at 279.06, while rises led falls by 694 to 275, with 198 issues unchanged. In London the ISE/Nikkei 50 index put on 3.45 at 1,261.60.

Futures-linked transactions were once again a factor in early trading, when overnight gains in Chicago futures prompted arbitrageurs to purchase Tokyo shares. Heavy buying by domestic financial institutions through Daiwa Securities and Goldman Sachs also pushed up prices in the morning.

Life insurance companies continued to buy shares through domestic brokerage houses. Their targets included Mitsui Marine and Fire Insurance, up Y15 at Y742, and trading house Marubeni, ahead Y5 at Y530. Other trading companies also advanced, Sumitomo adding Y15 at Y1,010 and Mitsubishi Y20 at Y1,300.

Boosted by a business daily report projecting a 32 per cent year-on-year increase in consolidated pre-tax profits, automotive electronics parts maker Nippondenso firmed Y10 to Y2,060. It is a major supplier to Toyota, Y10 higher at Y2,070.

Most other auto makers strengthened. Nissan moved up Y5 to Y810 in the day's sixth highest volume of 3.6m shares. Honda gained Y20 at Y1,710, but Suzuki Motor was off Y10 at Y2,110.

Privatised stocks were mixed. Japan Tobacco rose for the second straight day, adding Y7,000 at Y914,000. Nippon Telegraph and Telephone gained Y7,000 at Y848,000, but East Japan Railway slipped Y2,000 to Y467,000.

Steelmakers advanced on active buying by investment trust fund managers. Nippon Steel, the day's volume leader, climbed Y6 to Y363, Sumitomo Metal Industries Y7 to Y315, Kawasaki Steel Y8 to Y405 and NKK Y4 to Y268.

Shipbuilders also firmed. Hitachi Zosen was up Y7 at Y532, Mitsubishi Heavy Industries Y9 at Y723 and Kawasaki Heavy Industries Y5 at Y442.

In Osaka, the OSE average moved up 112.97 to 20,851.46 in volume of 148.5m shares.

Roundup

The region was very active yesterday.

HONG KONG was lifted 3.2 per cent as both domestic and foreign investors made selective purchases of blue chips. The Hang Seng index rose 262.21 to 8,259.56 in turnover of HK\$3.6bn, compared with HK\$3.8bn on Wednesday.

Brokers said previously oversold property and banking stocks were the most sought after. Swire Pacific "A" led gainers, adding HK\$2.60 or 5.8 per cent at HK\$47.30.

Wing Lung Bank forged ahead 4.9 per cent to HK\$53, China Light 5.9 per cent to HK\$33.70 and Wharf 6.6 per cent to HK\$24.90.

The H-share index of Chinese stocks listed in Hong Kong was also pushed up, jumping 73.32 or 7.3 per cent to 1,077.13. Brokers attributed the gain to a technical rebound after being heavily oversold in the past few days.

SHANGHAI saw a contrasting performance between the A shares, available to domestic investors, and the B shares, which are traded by foreign institutions. While the B index closed 1.6 per cent down at a year's low of 59.998, the A index surged 7 per cent to 689.561.

Brokers put down weakness in the B index to the disappointing performance of Shanghai New Asia Group, the hotel and restaurant concern which made its debut this week. It fell 7.42 per cent from an issue price of \$0.350.

Analysts said the New Asia listing had come at a time when some foreign investors were repatriating funds following the recent round of rises in US interest rates, and expectations that the US Federal Reserve would lift rates again in the short term.

Regarding the interest in domestic stocks, Credit Lyonnais remarked that this was a result of unconfirmed reports that the total share issue quota in 1995 would be reduced from Rmb5.5bn to Rmb3bn.

In Shenzhen, the A index gained 10.8 per cent at 152.49 and the B index fell 3.56 per cent to 89.90.

SYDNEY closed sharply higher, boosted by Wall Street's strong overnight performance. The All Ordinaries index rose 31.2 or 1.7 per cent to 1,895.0 in turnover of A\$472m. Gains were concentrated in industrials.

The futures contract ended at a 14-point premium to the cash market, with a rally of 2.1 per cent.

SINGAPORE rallied sharply on bargain hunting following recent losses. The Straits Times Industrial index added 66.23 or 3.13 per cent at 2,180.23.

KUALA LUMPUR built on Wednesday's 4 per cent advance. The composite index put on 13.62 or 1.45 per cent at 950.77, after hitting a high of 964.83 in the morning. Profit-taking in the afternoon generally pared rises.

WELLINGTON gained momentum in the afternoon, helped by a rise in forestry stocks. The NZSE-40 capital index firmed 10.5 to 1,906.32 in turnover of NZ\$54.7m.

FT-Actuaries World Indices

At its last quarterly meeting, the FT-Actuaries World Index Policy Committee confirmed the change in procedures, announced after the last quarterly meeting in September 1994, governing the six-monthly rebalancing of the FT-AWI Large and Medium-Small Cap Indices. The effect of the change will be that the next rebalancing and constituent changes to the Large and Medium-Small Cap Indices will take place on the new basis in March, effective April 3, 1995.

The following constituent changes to the indices were agreed following full market reviews, to take effect on January 2, 1995:

Ireland. Additions: DCC (Industry Sub-sector 406); Barlo (591); IWP (406). Deletions: Jones Group (561).

Japan. Additions: NTT – 58 per cent weighting of listed shares (222); Japan Telecom (223); KDD – 20 per cent weighting (223); East Japan Railway (304); Sony Music Entertainment (461); Autobacs Seven (571); Kokusai Securities (121); Rohm (551); Japan Tobacco (excluding government holding – 425); 77 Bank (112); Nichido Fire & Marine Ins (151); Yamaguchi Bank (112); New Japan Securities (121); Fukuyama Transport (304); Mabuchi Motor (571); AT&T Global Information Systems Japan (533); Shima Seiki Manfg (566); Heiwa (461); UNY (492); Daito Trust Construction (614); Yakult Honsha (451); Hankyu Dept Stores (491); Hitachi Chemical (621); Best Denki (534); York-Benimaru (493); Shimachu (492); Sato Kogyo (613); Terumo (433); Toyota Tsusho (571); Kissei Pharmaceutical (433). Deletions: Nippon Shinyaku (433); Ando (613); Fuji Spinning (412); Janome Sewing Machine (402); Dai Nippon Toryo (621); Akebono Brake Industry (571); Jeol (571); Ikegami Tsushinki (533); Nihon Parkerizing (622); Kyodo Shiryo (454); Nippon Denko (633); Godo Shusei (422); Nippon Soda (621); Kyotaru (464). Sector changes: Hino Motors (573 to 401); Hitachi Maxell (551 to 461); Brother Inds (402 to 534); Minolta (463 to 534); Nissan Diesel Motor (571 to 401).

Sweden. Additions: SSAB Svenska Stal A & B Free (633); Ericsson A Free second line (533); Skandinaviska-Enskilda Banken A Free (112); Svenska Handelsbanken A & B Free (112); Mo och Domsjo A & B Free (652); Industrivarden A & C Free (171); NCC A & B Free (613); Securitas B Free (481); Marieberg A Free (481). Deletion: Esselte A & B Free (534).

The following routine quarterly changes to current FT-AWI constituents will also take effect on January 2, 1995:

Addition: 3i (UK – 181). Sector change: Genbel (South Africa – 641 to 131).

The FT-Actuaries World Indices are jointly compiled by The Financial Times Limited, Goldman Sachs & Co and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries. All enquiries should be made to Symon Bradford, NatWest Securities Limited, on 031-243-4258, or to Barbara Mueller, Goldman Sachs & Co, on 0101-212-902-6777.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY DECEMBER 14 1994 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY DECEMBER 13 1994 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (68)	168.02	0.7	159.45	106.49	137.07	144.16	0.7	4.00	166.87	158.36	105.90	136.45	143.18	189.15	157.28	158.47
Austria (16)	175.46	-0.2	166.51	111.20	143.13	143.10	-0.4	1.13	175.81	166.84	111.57	143.76	143.66	198.89	167.46	180.06
Belgium (35)	165.26	0.3	156.83	104.73	134.81	131.64	0.1	4.19	164.78	156.38	104.57	134.74	131.48	177.04	159.64	160.10
Brazil (28)	180.08	1.8	170.90	114.13	146.90	281.42	2.6	0.73	176.94	167.91	112.28	144.68	274.23	–	–	–
Canada (103)	126.66	0.6	120.20	80.27	103.32	127.19	0.7	2.71	125.90	119.48	79.90	102.94	126.35	145.31	120.54	132.93
Denmark (33)	239.42	1.1	227.21	151.73	195.31	200.31	0.6	1.46	236.74	224.66	150.23	193.57	198.65	275.79	234.08	235.84
Finland (24)	174.73	0.2	165.81	110.73	142.53	179.09	0.2	0.78	174.36	165.47	110.65	142.57	178.65	201.41	116.85	119.06
France (102)	164.55	0.7	156.16	104.28	134.23	139.63	0.5	3.07	163.48	155.14	103.74	133.67	139.00	186.37	159.34	168.38
Germany (58)	136.41	0.8	129.46	86.45	111.28	111.28	0.5	1.86	135.39	128.49	85.92	110.71	110.71	150.40	128.37	135.94
Hong Kong (56)	318.92	2.2	302.66	202.12	260.17	318.92	2.3	3.91	311.89	295.99	197.93	255.03	309.92	508.56	305.99	410.81
Ireland (14)	195.34	-0.2	185.38	123.80	159.36	178.88	-0.2	3.57	195.67	185.69	124.18	160.00	179.27	216.60	177.58	180.58
Italy (59)	67.47	-1.8	64.03	42.76	55.04	82.39	-2.0	1.91	68.68	65.18	43.59	56.16	84.07	97.78	65.67	68.94
Japan (468)	150.49	0.2	142.81	95.37	122.76	95.37	0.1	0.81	150.19	142.53	95.31	122.81	95.31	170.10	127.18	133.87
Malaysia (97)	462.83	4.2	439.23	293.32	377.57	457.00	4.2	1.84	444.01	421.37	281.78	363.07	438.47	621.63	430.71	540.55
Mexico (18)	1965.72	-0.2	1865.47	1245.79	1603.54	7420.18	-0.2	1.39	1968.96	1868.54	1249.51	1609.97	7436.69	2647.08	1696.26	2232.54
Netherland (19)	209.98	0.4	199.27	133.08	171.29	168.38	0.1	3.43	209.19	198.52	132.75	171.05	168.14	223.30	191.28	192.07
New Zealand (14)	70.56	-0.3	66.96	44.72	57.56	58.77	-0.3	4.86	70.76	67.15	44.91	57.86	58.96	77.59	62.05	63.94
Norway (23)	201.24	1.3	190.98	127.54	164.16	187.13	1.0	1.77	198.73	188.59	126.11	162.50	185.28	211.74	166.11	170.05
Singapore (44)	351.84	2.3	333.90	222.98	287.02	237.85	2.3	1.80	343.85	326.31	218.21	281.16	232.42	401.38	294.66	342.50
South Africa (59)	318.62	-0.1	302.37	201.93	259.92	286.57	-0.5	2.29	319.10	302.83	202.50	260.92	288.05	342.00	205.55	240.09
Spain (38)	138.37	0.0	131.31	87.69	112.87	138.36	-0.1	4.13	138.41	131.35	87.83	113.17	138.49	155.79	132.91	136.56
Sweden (36)	226.72	-0.5	215.16	143.68	184.95	263.77	-0.2	1.59	227.90	216.28	144.63	186.35	264.32	242.81	185.22	195.22
Switzerland (47)	159.89	0.9	151.73	101.33	130.43	131.49	0.6	1.85	158.38	150.30	100.51	129.50	130.63	176.56	149.91	166.89
Thailand (46)	147.06	-2.1	139.56	93.20	119.96	143.62	-1.9	2.56	150.28	142.62	95.37	122.89	146.40	–	–	–
United Kingdom (204)	189.07	1.1	179.43	119.82	154.24	179.43	1.1	4.31	187.07	177.53	118.72	152.97	177.53	214.98	181.11	195.89
USA (514)	186.21	1.1	176.72	118.01	151.90	186.21	1.1	2.95	184.23	174.84	116.92	150.64	184.23	196.04	178.95	188.61
Americas (663)	173.96	1.0	165.08	110.25	141.91	144.72	1.1	2.88	172.16	163.38	109.26	140.77	143.21	–	–	–
Europe (708)	164.05	0.6	155.68	103.96	133.82	147.46	0.5	3.18	163.04	154.72	103.46	133.31	146.75	178.58	160.59	163.30
Nordic (116)	216.53	0.1	205.48	137.23	176.64	206.74	0.2	1.43	216.38	205.34	137.32	176.93	206.40	233.91	180.05	180.05
Pacific Basin (793)	157.84	0.5	149.79	100.03	128.76	104.15	0.3	1.19	157.11	149.10	99.71	128.47	103.79	176.96	141.04	146.44
Euro-Pacific (1501)	160.35	0.5	152.17	101.62	130.80	121.25	0.4	2.05	159.50	151.36	101.22	130.42	120.78	175.14	152.54	152.72
North America (617)	182.52	1.1	173.21	115.67	148.89	182.16	1.1	2.94	180.61	171.40	114.62	147.68	180.25	192.73	175.67	185.16
Europe Ex. UK (504)	147.00	0.4	139.50	93.16	119.91	128.25	0.1	2.52	146.47	139.00	92.95	119.77	128.05	158.12	142.17	142.71
Pacific Ex. Japan (325)	231.25	1.9	219.46	146.56	188.65	202.78	1.9	3.28	226.91	215.34	144.00	185.55	198.96	286.21	224.17	255.82
World Ex. US (1709)	162.25	0.5	153.97	102.83	132.36	124.89	0.4	2.05	161.41	153.18	102.43	131.98	124.38	176.65	164.31	154.49
World Ex. UK (2019)	167.24	0.7	158.71	105.99	136.42	140.05	0.6	2.17	166.10	157.63	105.41	135.82	139.21	178.59	161.50	161.92
World Ex. Japan (1755)	180.91	0.9	171.68	114.65	147.58	172.17	0.9	3.01	179.24	170.10	113.75	146.56	170.66	185.20	176.34	182.81
The World Index (2223)	169.17	0.7	160.54	107.21	138.00	143.64	0.7	2.37	167.96	159.40	106.59	137.34	142.71	180.80	164.59	164.89

Constituent changes with effect 2/1/95: Kiada Mahanakorn changing from (F) prices to (D) prices (Thailand). CMIC Finance & Securities changing from (D) prices to (F) prices (Thailand). Latest prices were unavailable for this edition.